partnerships
British Columbia

Annual Report

05 - 06

partnerships
British Columbia

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## Annual Report

## 05 - 06

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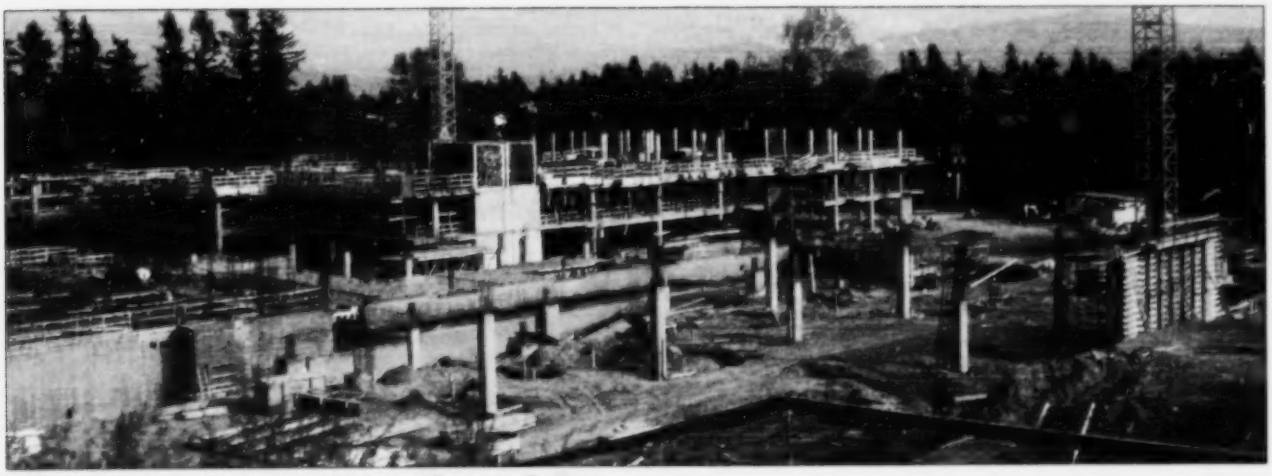


**Abbotsford Regional Hospital and Cancer Centre**

# Introduction

This annual report is provided as a review of fiscal year 2005-06 for Partnerships British Columbia Inc. In keeping with direction from the Province, this report focuses on key aspects of the Company's operations and outcomes that are of public interest. For Partnerships British Columbia, this means a focus on the overarching outcome of helping the Province deliver needed infrastructure that is affordable and achieves value for money.

In line with government reporting standards, this annual report provides both specific information on Partnerships British Columbia's goals, objectives and results, and also, contextual information such as the organization's mandate and governance. Combined, this information provides a comprehensive overview of Partnerships British Columbia's contribution to the Province of British Columbia.

**In brief, the report provides the following:**

- Operational highlights for the 2005-06 year;
- An organizational overview, including the Company's vision, mission and values, as well as a description of the Company's core business;
- The report on performance, which includes information on changes to goals and measures, explains how performance was measured and tracked, and defines targets for the next several years. This section also covers challenges faced, and the Company's strategies to mitigate those challenges, in order to meet its annual goals and targets;
- A description of how the Company's objectives align with the Province's strategy;
- The Company's financial report and management discussion and analysis;
- Information on the Company's governance structure; and
- Information on Partnerships British Columbia's subsidiary, Abbotsford Regional Hospital and Cancer Centre Inc. (ARHCC Inc.)

# Message from the Chair

I am pleased to present the 2005-06 Annual Report for Partnerships British Columbia Inc.

Partnerships British Columbia has continued to support the Province in responding to the need for public infrastructure. With Partnerships British Columbia's guidance, projects underway today are creating a capital investment of $4.3 billion in British Columbia's infastructure. This investment consists of $3 billion in private sector capital with the remainder in public sector contributions. As a result, British Columbians will benefit from improved, expanded and innovative transportation, health care and other infrastructure.

In the 2005-06 fiscal year, Partnerships British Columbia helped its government clients complete six agreements, delivering the Sea-to-Sky Highway Improvement Project, the Kicking Horse Canyon (Phase 2) Project, the W.R. Bennett (Okanagan) Bridge Project, the Yukon Cellular Project, the Golden Ears Bridge Project and provided advisory services to the Province with respect to its investment in the Canada Line (rapid transit connecting Richmond, the Vancouver International Airport and Vancouver). Together these projects are designed to provide necessary upgrades, to improve the movement of people, goods and tourists, and to improve the safety, reliability and capacity of B.C.'s transportation infrastructure. All of these projects are expected to deliver value for money for B.C. taxpayers. The Sea-to-Sky Highway Improvement Project and the Canada Line Projects have been recognized nationally and internationally with industry awards.

The 2005-06 fiscal year also saw the successful completion of construction on both the Sierra Yoyo Desan Resource (SYD) Road and the Britannia Mine Water Treatment Plant. Both projects were completed ahead of schedule, with the SYD Road becoming operational a full three months ahead of schedule. Construction continues on schedule for the Abbotsford Regional Hospital and Cancer Centre (ARHCC) and the Academic Ambulatory Care Centre.

In its fourth year of operations, Partnerships British Columbia continued to facilitate partnerships between government and business to deliver the best facilities and services for British Columbians. Partnerships British Columbia has achieved remarkable success in advancing its objectives and contributing to the development of the public private partnership market in British Columbia. The Company's activities have increased confidence in the public private partnership model as an option for British Columbia. This increased confidence is demonstrated by the expansion of the number of private sector companies investing and moving into the B.C. market, and also in the growing number of community leaders and residents voicing their support for these projects.

Looking forward, Partnerships British Columbia is actively engaged in a range of high-priority projects in the transportation, health and education sectors. In the next fiscal year, we expect to help our clients reach final agreement and see construction start on a number of projects, including the Northern Sport Centre at the University of Northern British Columbia in Prince George, Primary Access Centres in the Lower Mainland, and long term care facilities throughout B.C.

The 2005-06 Partnerships British Columbia Annual Report was prepared under the Board's direction in accordance with the Budget Transparency and Accountability Act. The Board oversees the performance of the company and ensures that appropriate performance measures are in place. The Board will hold management accountable for the contents of the report, including the selection of performance measures and how the results have been reported. The information presented reflects the actual performance of Partnerships British Columbia for the twelve months ended March 31, 2006. All significant decisions, events and identified risks, as of March 31, 2006, have been considered in preparing the report.

The information presented is prepared in accordance with the B.C. Reporting Principles and represents a comprehensive picture of our actual performance in relation to our service plan.

Rick Mahler,
**Board Chair**
*Partnerships British Columbia Inc.*

# The Year in Review – Highlights

**Kicking Horse Canyon**

Partnerships British Columbia's 2005-06 fiscal year built upon the successes of previous fiscal years with four Partnerships British Columbia managed projects reaching financial close, and construction being completed on two projects and continuing on others. In addition, Partnerships British Columbia supported the Province in reaching an agreement on the Canada Line Project and provided advisory services to TransLink for the Golden Ears Bridge Project, two projects which also reached financial close in 2005-06. Partnerships British Columbia also entered into new engagements ranging from procurement management to advisory services. British Columbia continues to gain recognition in the national and global market place for its advancements in providing value for money in public infrastructure. Partnerships British Columbia continues to be recognized as a catalyst and a leader in developing innovative solutions to public sector infrastructure needs.

➤ ***Kicking Horse Canyon***

The Kicking Horse Canyon (Phase 2) Project reached financial close on October 28, 2005. The Kicking Horse Canyon initiative is a three-part project to improve highway safety. At the commencement of the project, the existing road and bridge system was more than 50 years old and far below modern safety standards. The narrow design of the road, coupled with high traffic volumes, led to an accident rate as high as twice the Provincial average. Using Partnerships British Columbia as advisor and manager of the procurement process, the Ministry of Transportation was able to achieve a savings of 19 months in the construction process through a public private partnership.

- ***W.R. Bennett Bridge (Okanagan Lake Crossing)***
  The crossing of Okanagan Lake at Kelowna has long been the site of traffic congestion and air quality problems resulting from excessive automobile idling. The W.R. Bennett Bridge is a new five-lane replacement for the existing floating bridge that spans the lake between Kelowna and West Bank. The project reached financial close in April 2005 and is on target for completion in Spring 2008. Through an innovative arrangement between the private sector and the Ministry of Transportation, total savings of $25 million are expected to be achieved over the 30 year life of the project.

- ***Sea-to-Sky Highway***
  The Sea-to-Sky Highway Improvement Project was implemented to address another highway safety issue. The original Sea-to-Sky Highway experienced 300 motor vehicle accidents annually. Road closures due to accidents or unsafe weather conditions continually caused difficulties for local residents as well as constraints on the movement of goods, services and tourist traffic. The improved highway will accommodate additional passing lanes, improved sightlines and other design innovations to improve safety, capacity and reliability. In addition to reducing accident rates, the highway improvement is expected to create an additional 6,000 jobs throughout the Province as a result of increased economic activity generated along the corridor. The project reached financial close in June 2005 and is expected to be completed in 2009 in advance of the 2010 Olympics. In addition to an accelerated construction timeframe, the procurement process is expected to yield an incremental $131 million in economic benefits to the Province over the life of the project. These extra benefits include an additional 20 kilometers of passing lanes, an additional 16 kilometers of median barriers, improved road width, straightening and debris catchment.

- ***Yukon Telecommunications (Cellular)***
  The Yukon Telecommunications (Cellular) project was intended to address mobile communications deficiencies in the Yukon Territory. The project, undertaken for the Yukon Ministry of Economic Development, reached financial close in Fall 2005. On behalf of its client, Partnerships British Columbia expects to achieve value for money by substantially reducing the Yukon Government's financial commitments to the project and reducing the payment period to the contractor from twelve years down to seven.

- ***Partnerships British Columbia continues to play a formal role in two projects beyond the point of financial close.***
  The Abbotsford Regional Hospital and Cancer Centre (ARHCC) will provide the rapidly growing Fraser Valley Region with enhanced and improved public healthcare. The $355 million facility will provide a patient-centered environment that is the most modern and technologically advanced in Canada. The ARHCC project is being managed by Abbotsford Regional Hospital and Cancer Centre Inc., a wholly owned subsidiary of Partnerships British Columbia. Once Substantial Completion is reached (on schedule for May 2008), the ownership of the project will devolve to the Fraser Health Authority and the Provincial Health Services Authority.

  The Britannia Mine Water Treatment Plant Project that is cleaning up polluted water from this former mine site, is revitalizing the natural environment, and is the first step in developing a residential and tourist attraction at Britannia Beach. Since the project reached financial close, Partnerships British Columbia has continued to provide an advisory role during the construction phase and into the operations phase.

- ***The 2005-06 fiscal year also saw the completion of construction of the Sierra Yoyo Desan Resource Road in north-eastern British Columbia.*** The road serves the oil and gas industry by improving access to development areas for economic growth. Though contemplated for two decades, the road finally made the transition to reality through the innovations and efficiencies of a public private partnership. Construction of the road was completed in September 2005, three months ahead of schedule.

- ***Partnerships British Columbia has been fortunate to be able to work with clients to move four projects into the marketplace and initiate planning on several more.*** Projects that entered into the market in 2005-06 included the Vancouver Island Health Authority Long Term Care and Assisted Living Capacity Initiative Project, the Pitt River Bridge and Mary Hill Interchange Project, and Vancouver Coastal Health's Primary Access Centres. Projects currently in the competition phase, and that have reached or are expected to reach financial close in Fiscal 2006-07, include: Whistler Sewage Treatment Plant and the Northern Sport

Centre. Work on new engagements in the areas of telecommunications, ambulatory care, long term care, and advisory services in planning will continue throughout the 2006-07 fiscal year.

- ***In 2005-06, the Company refined its business model to focus on creating new partnership opportunities, developing a public private partnership centre of expertise, and the development and maintenance of high standards of client service and public disclosure.*** In addition, the Company revised its goals and targets, and developed and implemented plans to effectively measure its progress.

- ***Partnerships British Columbia conducted its second client survey in 2005-06, with positive results.*** Overall, the client satisfaction rate was very high and clients, both at the executive and management level, felt that Partnerships British Columbia added significant value to their infrastructure processes.

**John Dyble,** *Deputy Minister, Ministry of Transportation*

**William R. Bennett Bridge (artist's rendering)**

# Organizational Overview

**Business in Vancouver,** *April 2005*

This section includes a review of the Company's mandate, vision, and values, as well as a description of products, services and clients served.

## Mandate

Partnerships British Columbia's mandate, is documented in its 2005/06 to 2007/08 Service Plan. Furthermore, corporate objectives have been identified in the January 2004 Shareholder's Letter of Expectation between the Board Chair and the company's Shareholder, the province of British Columbia as represented by the Minister of Finance. These expectations include:

- assisting public sector client agencies in identifying and managing public private partnership opportunities where it can be demonstrated that such procurement arrangements will improve services and achieve value for money;
- improving customer service to the Shareholder and other public sector client agencies;
- improving the efficiency and quality of public private partnership transactions, maximizing business sector investment and minimizing costs to taxpayers;
- achieving and maintaining commercial viability by March 31, 2006, with the ability to maintain the corporation's commercial viability on an ongoing basis. Commercial viability requires that revenues meet or exceed expenses, whether or not the Government Services Agreement with the Province is continued;
- building a centre of expertise and excellence that will be recognized for innovation and performance for other jurisdictions to replicate;
- ensuring the public interest is served;
- demonstrating transparent and competitive processes;
- providing policy advice to the Shareholder on alternative procurement, public private partnerships and capital asset management when required;
- creating a marketplace and environment conducive to the growth of the public private partnership sector; and
- building and retaining Partnerships British Columbia's team.

## Vision

Partnerships British Columbia's vision is to structure and implement public private partnerships which serve the public interest. The Company is committed to commercial viability, transparent operations, and achieving excellence through innovation, leadership and expertise in public procurement. It works with public sector agencies and the business community to create agreements that combine the best aspects of private sector expertise and public sector stewardship by:

- selecting partners through competitive, fair and transparent processes that deliver the best products or services at the best price;
- ensuring the appropriate transfer of risk;
- instilling a pay-for-performance system based on the business sector's ability to meet standards set by government;
- serving the public interest in each project; and
- attracting international expertise and investment to British Columbia.

**The following corporate values guide Partnerships British Columbia's approach to leadership and its service offerings:**

| Values | Corresponding Leadership Philosophy |
|---|---|
| Obtaining Value for Money | ➤ explore and encourage innovation, new ideas and partnerships for infrastructure solutions that result in value for money<br>➤ explore opportunities to increase social, economic, environmental, or other benefits derived from infrastructure investments<br>➤ continue to improve efficiency and productivity, targeting industry benchmarks |
| Serving the Public Interest | ➤ ensure that public interest issues such as safety, privacy and transparency are assessed and protected in developing solutions to infrastructure challenges<br>➤ provide public agencies with tools and support to identify, evaluate, allocate and manage risk effectively |
| Competition and Transparency | ➤ improve the appeal of the British Columbia market so as to maximize competition for partnership opportunities<br>➤ ensure that all activities engaged in by Partnerships British Columbia and its staff maintain the highest levels of fairness and openness |
| Strong Accountability | ➤ measure and report on performance at all levels<br>➤ recognize achievement and develop best practices from lessons learned |
| Respect and Integrity | ➤ focus on clients, provide leadership, encourage teamwork and value diversity and differences of opinion<br>➤ protect confidentiality of commercial information |

## Primary Business

Partnerships British Columbia's products and services support the Province's ability to involve business sector expertise, services and investment in the delivery of complex capital projects. As a Crown Agency, Partnerships British Columbia fulfills its mandate through the following service areas:

- as a centralized service, developing public private partnership expertise, documentation, processes and experience – for the benefit of its clients and British Columbia taxpayers;
- providing a full spectrum of services on a turnkey basis, giving clients strong analysis and management of the public private partnership process – allowing clients to focus on their core businesses and accountabilities;
- providing full integration of its services with third party, professional advisory services (project management, technical, accounting, financial, and legal) necessary to successfully conduct competitive procurement processes;
- using varied project experience to provide a knowledge bank of best practices from which new projects benefit, thus helping to achieve a variety of objectives such as reducing procurement costs on new projects; and
- utilizing a highly qualified Board of Directors, with considerable understanding and insight into both the public and private sectors, to assess the commercial viability of public private partnerships proposals.

***Partnerships British Columbia's specific products and services include:***

- procurement management;
- project management;
- best practices documentation, procedures and experience;
- development of new partnership structures;
- business case development and value-for-money analysis;
- partner identification and market sounding;
- advice on contract negotiations;
- advice on government approval processes; and
- advice on issues management and communications.

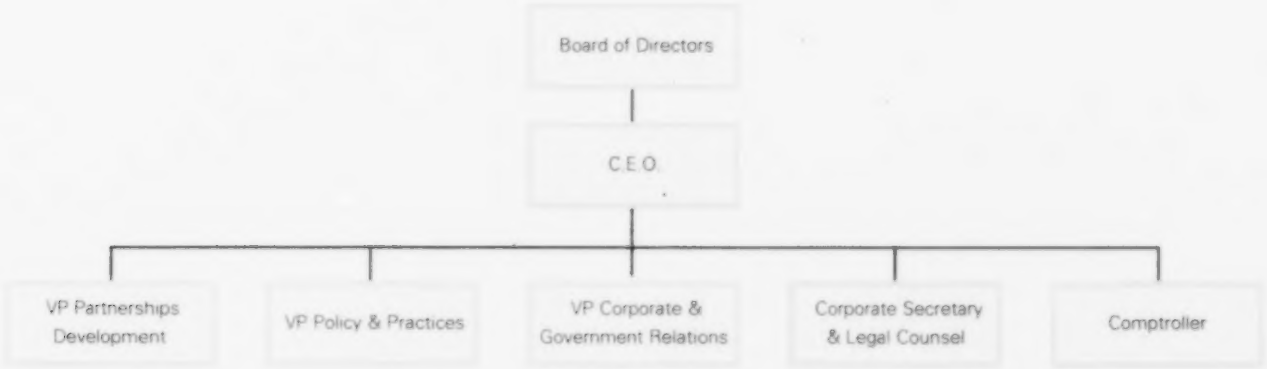
## Corporate Overview

Partnerships British Columbia is a *Business Corporations Act* company, wholly-owned by the Province of British Columbia and governed by a Board of Directors. The Board reports to its sole shareholder, the Province of British Columbia represented by the Minister of Finance. Partnerships British Columbia does not have any enabling legislation as do many other Provincial Crown Agencies.

The Company's primary clients are public sector agencies, including ministries, Crown Agencies, health authorities and post-secondary institutions. To serve these clients effectively, Partnerships British Columbia is also working to build strong relationships with the public private partnership advisory community and business partners such as businesses, investors, the financial services sector and providers of construction, engineering and facilities management services.

The Company's organization, staffing and governance reflect and support this strategic combination of public and business interests to best serve public needs. Partnerships British Columbia has operations in both Vancouver and Victoria.

**The Company's executive organizational structure is as follows:**



**Abbotsford Regional Hospital and Cancer Centre**

In 2005-06, Partnerships British Columbia employed 38 professional and administrative full time equivalent positions and engaged in-sourced contractors as required. To respond to business needs, Partnerships British Columbia is structured into three strategic service units that support the Company's project focus and operational requirements: Partnerships Development, Corporate and Government Relations, and Policy and Practices. Company operations are supported by a financial administration unit (including human resources and information systems) and a corporate secretary and legal counsel function. These business units, and their primary functions, are described in the table below.

**FUNCTIONAL ACCOUNTABILITIES**

| Partnerships Development | Policy and Practices | Corporate and Government Relations | Corporate Secretary and Legal Services | Finance and Administration |
|---|---|---|---|---|
| ► Manage partnership development initiatives<br>► Develop new partnership structures and opportunities<br>► Manage client relations and service quality<br>► Establish terms of engagements | ► Develop and implement policy and best practices<br>► Provide procurement services<br>► Market Partnerships British Columbia best practices<br>► Manage corporate planning initiatives | ► Manage government and external corporate relations<br>► Manage corporate and project communications<br>► Lead work with other provinces to develop the partnership market | ► Board governance<br>► Corporate legal services<br>► Project legal and risk management support | ► Prepare financial statements<br>► Maintain management information system<br>► Monitor relevant business benchmarks<br>► Manage audit<br>► Provide human resource services<br>► Maintain information systems |

**Project Teams:** Project Directors, Project and Communications Consultants

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"Clearly Partnerships BC is far ahead of anything I heard of going on in the USA at present and certainly for the foreseeable future."

**Scott Lyons,** *Senior Vice President, Ledcor Projects Inc.*

# Report on Performance

This section provides a detailed discussion of Partnerships British Columbia's goals, targets, measures and performance. This includes a discussion of changes that were made to some goals and measures during the year; an explanation of how measures were tracked; and a review of key challenges and the steps taken to mitigate those challenges.

### Goals:

Building on the progress made in 2004-05 and reflecting the vision of its Board of Directors, the Company focused on six goals for the 2005-06 fiscal year:

1. To pursue, structure and implement public private partnerships
2. To satisfy clients
3. To become commercially viable
4. To serve the public interest and ensure competitive, fair and transparent processes
5. To be widely recognized as a centre of excellence for innovation, leadership and expertise in public private partnerships
6. To build and retain the team

### Changes to Goals:

As Partnerships British Columbia and the public private partnership market matures, it has adjusted its corporate goals as an organization to reflect the evolving vision of the Company and its Board of Directors and the needs of its Shareholder. For example, in the 2004-05 Service Plan, Partnerships British Columbia refined its goals to reflect the stage of growth at which the Company was operating – focusing on revenue generation and market growth.

For the 2006-07 to 2008-09 planning period, Partnerships British Columbia has worked with its Shareholder to reassess and restructure its goals to ensure that they are consistent with the objectives of the Shareholder and are optimally focused on government priorities, such as minimizing project costs. Given the restructuring of the Company's goals since inception in 2002, historical performance targets and measures are not reported. Partnerships British Columbia has simplified its previous six goals and strategies and consolidated them into three goals for the reporting period of 2006-07 to 2008-09, with primary emphasis given to the structuring and implementation of public private partnership solutions. The three goals are as follows:

- Structure and implement partnership solutions which serve the public interest
- Encourage development of the public private partnership market in British Columbia
- Remain commercially viable and increase productivity

This report assesses the performance of Partnerships British Columbia vis-à-vis the goals and measures as defined in the 2005-06 Service Plan (September Update). Goals, targets and measures for 2006-07and beyond will be based on the 2006-07 to 2008-09 Service Plan.

(Changes to goals and measures are summarized in Appendix 1: Changes to Goals and Measures)

Measures and targets may be refined and further improvements will be made in the years ahead as Partnerships British Columbia grows and the business environment changes. Partnerships British Columbia collects and utilizes data from reliable independent and government sources in its development of targets for the performance measures in the Service Plan. The Company monitors the performance of the measures in the Service Plan and introduces corrective actions as necessary to ensure that it achieves its goals.

### Measurement:

Partnerships British Columbia continues to hold a unique place in the market, acting both as advisor to government and as the gateway to the business sector.

Quantitative measures, such as standard measures of commercial viability, reflect the business influence.

Partnerships British Columbia tracks data for measures from a number of sources, including:

- the financial plan presented to the Board of Directors, which is benchmarked against comparable corporations;
- tracking of project milestones and comparison of milestones achieved based on project plans;
- implementation of a knowledge management strategy to track and catalogue best practices, project precedents, and other policies; and
- information from client and employee satisfaction review processes, including surveys and interviews.

## General Planning Context

A number of factors changed the strategic context in which Partnerships British Columbia operated in the 2005-06 fiscal year. The Canadian partnership market was expanding and developing, with new public delivery institutions formed in both Ontario and Quebec. Many new projects were announced in other jurisdictions and new market participants expanded and located across the country. British Columbia continued to experience a heated construction market province-wide and in the Lower Mainland in particular. British Columbian public private partnerships continue to achieve high value-for-money propositions.

Other significant factors also impacted Partnerships British Columbia's strategic environment and related directly to the fiscal situation and infrastructure requirements of the majority of its clients. For example, the Province of British Columbia's planned infrastructure growth in long term care, ambulatory care, acute care and primary access care, along with 25,000 post-secondary seats, and other infrastructure initiatives such as the Pacific Gateway, provided opportunities for Partnerships British Columbia to assist clients to add value to projects while serving the public interest. Moreover, provincial policy requirements and fiscal conditions resulted in provincial clients considering alternative financing mechanisms as higher value-for-money solutions.

## Risk Management

A number of potential risks factored into Partnerships British Columbia's plans for realizing its objectives in 2005-06. As described below, the Company developed strategies for managing those risks while pursuing opportunities. The risk profile faced by Partnerships British Columbia in 2005-06 was similar to previous years, although inflationary pressures and capacity in the construction industry remained significant concerns. In addition, increased competition on projects in other jurisdictions presented both a risk and an opportunity for the Company.

Key risks and their corresponding mitigation measures, as identified through Partnerships British Columbia's ongoing approach to risk management, are as follows:

***Scope of business, focus and client base***

Partnerships British Columbia was created as part of the provincial government's strategic plan to deliver public services more efficiently. While the Province is seeking to deliver a variety of services through more effective methods, Partnerships British Columbia is focused on capital infrastructure, and only provides services to public sector clients. Despite the significant market potential for public infrastructure development in British Columbia and beyond, the specialized product offering and client base of Partnerships British Columbia does impose certain business risks. For example, lags in project flow pose challenges from a revenue and resource planning perspective in both the short term and long terms.

Actions undertaken to manage risk and optimize opportunities related to business scope included:

- focusing on providing quality outcomes to existing clients to increase confidence and encourage future engagements;
- consulting regularly with government agencies to continually understand their needs and identify project opportunities;
- applying rigorous analysis to ensure that qualitative factors such as a project's social, environmental and public interest impacts are identified and addressed along with financial impacts and service outcomes;
- working to expand Partnerships British Columbia's potential client market to include other levels of government and other jurisdictions; and
- communicating the value of public private partnerships to encourage the broader public service to consider their use.

***Public private partnership market and capacity***

The public private partnership market in Canada was still in the relatively early stages of development in 2005-06. Internationally, the market has matured in some countries such as the United Kingdom and Australia while it is still emerging in others.

As a result, capacity in B.C. continued to grow and compete with other jurisdictions. In addition, strong growth in construction activity in B.C., nationally and internationally, further challenged Partnerships British Columbia to attract businesses to the market.

External factors have, therefore, played a significant part in Partnerships British Columbia's success and the Company faced challenges related to:

- growth of public private partnership markets in competing jurisdictions;
- general private sector interest in public private partnerships worldwide;
- development of private sector public private partnership capacity within B.C.; and
- capacity and inflationary pressures in the construction sector within B.C.

Meeting these challenges required Partnerships British Columbia to develop and enhance relationships with stakeholders and business partners and standardize practices to support market development. The Company worked to understand the international market and broaden the Canadian market through the following research and outreach activities:

- development of relationships and consultation with a wide range of public private partnership stakeholders to ensure the continuous transfer of knowledge related to best practices. This includes the development of standardized and consistent approaches to reduce transaction and bid costs to make B.C. a more attractive market for both clients and bidders, and support of the development of the B.C. public private partnership community;
- holding discussions with other provincial governments to broaden the Canadian public private partnership market and enhance the expansion of best practices to make the Canadian market more attractive to bidders;
- engagement in dialogue with, and monitoring of activities of, public private partnership organizations and stakeholders around the world. For example, jurisdictions such as the United Kingdom and Australia have mature public private partnership markets and Partnerships British Columbia continues to learn from their experiences;
- ensuring rigorous project budgeting to address project specific risks such as construction cost escalation;
- encouragement of business partnering opportunities within and outside B.C. through education and awareness;
- conducting of research and assessment of market interest in advance of project implementation to ensure a viable market; and
- involvement of the academic community to analyse the British Columbia project experience to further develop best practices.

***Internal experience and capacity***

In addition to the external market capacity risks described, Partnerships British Columbia continually builds the experience and skill sets it needs to be a leader in providing public private partnership products and services. At the same time, Partnerships British Columbia faces the challenge of balancing service demand with its corporate capacity to ensure successful performance at both the project and organizational levels. To meet these challenges, the Company developed and implemented a human resources approach that:

- ensured Partnerships British Columbia's professionals develop the right mix of skills and expertise for the expected project flow and corporate responsibilities, and that expertise was drawn from both the public and business sectors;
- emphasized and facilitated continuous learning and improvement. This included the development of a corporate knowledge management system that will make best practices readily available to all staff so they have the tools to be successful;
- optimized staff retention;
- included targeted and relevant training for staff; and
- benchmarked human resource management strategies against comparable organizations.

***Reputation risk***

Reputation is compromised when an organization's performance, ethics or experience with stakeholders suffers. The ability of Partnerships British Columbia to provide quality service and foster market growth is directly tied to the reputation of the

Company and the demonstrable success of its projects. A strong reputation will attract more clients, improve relationships, and generally assist with the growth of the market in B.C. and Canada.

Partnerships British Columbia employed the following risk mitigation strategies to address reputation risk:

- functional organization focuses upon the use of best practices in all Partnerships British Columbia activities to help ensure quality of service and successful projects;
- high priority placed upon disclosure and transparency;
- regular feedback sought from all market participants and clients and ensures that concerns and criticisms of its operations are addressed, and that corporate strategies are aligned with stakeholder expectations;
- strong operational and internal controls in place; and
- Board and staff operate at the highest level of integrity.

***Management and operational risks***

As a knowledge-based professional services company, Partnerships British Columbia's ability to serve its clients is dependent entirely upon its ability to harness and direct that knowledge. As a result, Partnerships British Columbia faces a number of business risks relating to information management. Furthermore, Partnerships British Columbia manages a significant volume of contracts on behalf of its clients.

Systems must be robust, and continuity plans must be in place in the event that there are disruptions to service.

Partnerships British Columbia employed the following risk mitigation strategies to address management and operational risk:

- Continually updated and improved its management and financial information systems and related processes;
- Addressed office disruption and transportation issues by facilitating and enabling the effective use of portable systems such as laptops and remote server access;
- Worked to improve server performance and the implementation and management of back-up systems;
- Addressed information systems related risks; and
- Implemented improved contract management processes.

"As we meet with governments and authorities across North America, they often... reference the fine work being performed by Partnerships BC to developing the nascent PPP market in North America."

**Duncan Ball,** *Managing Director, ABN AMRO*

# 2005-06 Performance Results

Partnerships British Columbia presented its performance results to the Board at the end of 2005-06 and for each goal, the Company's performance was seen to have achieved the targets set. The Company has met its objectives in terms of starting, and completing several partnership projects; achieving value for money on completed projects; achieving client satisfaction; reaching targeted revenues and financial position; and generating external recognition.

A summary of goals, results for 2005-06, and measures for 2006-07 to 2008-2009, follow at the end of this section.

### Goal 1 - To Pursue, Structure and Implement Public-Private Partnerships

Partnerships British Columbia's primary mandate is to structure and implement public private partnerships to deliver infrastructure which serves the public interest. The Company tracks its ability to achieve this goal as measured primarily by meeting project milestones and initiating new projects.

During the year, Partnerships British Columbia actively worked on 32 engagements for a variety of B.C. government departments, as well as other levels of government such as the Resort Municipality of Whistler, and the Governments of the Yukon, Quebec and Canada. All controllable project milestones were met, meaning that projects were proceeding according to schedules. Four projects under the direct management of Partnerships British Columbia reached financial close, and each one of these is expected to demonstrate solid value-for-money for taxpayers. In addition, Partnerships British Columbia won repeat assignments with clients, and continued on with two projects in a post financial close capacity.

### Goal 2 - To Satisfy Clients

In support of its primary goal, Partnerships British Columbia is committed to ensuring that public sector clients are provided with the highest standard of service possible, and that they are satisfied with the quality of services. Achieving this goal means that Partnerships British Columbia's clients believe that the Company is making a positive contribution to their own goals and mandates. In 2005-06, Partnerships British Columbia enhanced and reissued a client review system in a continued commitment to putting the needs of its clients first.

Partnerships British Columbia achieved strong results in its 2005-06 client survey with the highlights as follows:

- 69 per cent of clients surveyed (36 clients surveyed) responded
- 96.4 per cent of executive clients were satisfied with Partnerships British Columbia
- 83.3 per cent of management clients were satisfied with Partnerships British Columbia
- 92 per cent of respondents believe Partnerships British Columbia understands their strategic goals and business needs
- 90 per cent of respondents would recommend Partnerships British Columbia to other ministries and organizations.

These results compare very favourably to other professional services organizations.

### Goal 3 - To Become Commercially Viable

Partnerships British Columbia is committed to ensuring it is a commercially viable organization. Commercial viability requires that revenues meet or exceed expenses, whether or not the company's contractual agreement with the Province (Government Services Agreement) is continued.

In the 2005-06 fiscal year, Partnerships British Columbia achieved its goal of attaining commercial viability. Furthermore, with a net income of $1,462,386, Partnerships British Columbia exceeded its net income target of

$1,215,000, and also met its equity target of six months operating expenses or greater.

## Goal 4 – To Serve the Public Interest and Ensure Competitive, Fair and Transparent Processes

Partnerships British Columbia shares with its public sector clients a commitment to serving the public interest. Achieving this goal indicates that Partnerships British Columbia is succeeding in managing its projects in a way that deserves, and receives, the public's trust.

This is not a simple goal, given the commercial complexity that often accompanies public private partnerships. However, the Company is committed to ensuring that its operations and projects are delivered in the most transparent manner possible. All stakeholders must have an adequate degree of comfort with the process involved in bringing a project to fruition. Fairness, integrity and value for money must be clearly demonstrated – while protecting confidential information and commercial interests.

Targets for this goal were met in that Partnerships British Columbia expects value-for-money will be demonstrated for each project that reached financial close through public release of value for money reports and proactive disclosure of procurement and contract documentation. Value for money reports were published for the Sea-to-Sky Highway Improvement Project and the W.R. Bennett (Okanagan) Bridge Project. In all cases, the value-for-money reports indicated expected savings of 10 to 30 per cent, with additional benefits accruing from risk transfer and related qualitative measures.

This goal is also measured through the issuance of fairness reports or fairness opinions on specific projects where appropriate and as requested by the client. In 2005-06, positive fairness reports were issued for the Sea-to-Sky Highway Improvement Project, the W.R. Bennett (Okanagan) Bridge, and the Kicking Horse Canyon (Phase 2) Project.

## Goal 5 – To Be Widely Recognized as a Centre of Excellence for Innovation, Leadership and Expertise in Public Private Partnerships

Partnerships British Columbia is focused on growing the public private partnership market by creating a world class centre of excellence and expertise for public private partnerships in British Columbia. A key measure in achieving this is the harnessing of best practices from one project and transferring them to another project, thereby improving both efficiency and quality. The Company is succeeding in having its innovation, leadership and expertise recognized in business, industry, academic circles and the public sector.

Partnerships British Columbia achieved all of the specific measures related to this goal. Best practices were applied in numerous instances to active engagements throughout the 2005-06 fiscal year. Furthermore, active sharing of best practices has occurred with other jurisdictions that are also pursuing partnership opportunities.

Additional results achieved for this goal include the attraction of a number of new market participants as lenders, equity players and developers. Furthermore, consistent trade and mainstream media recognition of British Columbia's advancement in the field of public private partnerships, and specifically the role of Partnerships British Columbia, demonstrates success in meeting this goal.

## Goal 6 – Build and Retain Team

As a knowledge company, Partnerships British Columbia remains committed to building and retaining a staff complement that is highly skilled, has in-depth knowledge of both the public and private sectors, is adaptable to a changing environment, and is responsive to the needs of its clients. Throughout the 2005-06 fiscal year, Partnerships British Columbia staffed both strategic and operational human resources management positions to help strengthen the Company in this area. In addition, the performance management system continued to be refined and learning programs are under development to ensure that staff members have the opportunity to optimize their individual performance, but also reach personal career goals. Partnerships British Columbia also completed a company-wide project management training program to build on its core expertise. Employee and client feedback is incorporated into the human resources management process on a continual basis.

## RESULTS (BASED ON 2005-06 CORPORATE GOALS)

| | 2005-06 Targets | 2005-06 Results |
|---|---|---|
| **GOAL 1**<br>**Pursue, Structure and Implement Public Private Partnerships** | • Project milestones achieved<br>• Pilot engagements in key sectors<br>• Engagements with clients other than the Province of British Columbia | • All controllable project milestones met<br>• Four directly managed financial closings<br>• Eleven new engagements mostly in health and education<br>• Three repeat assignments<br>• Four engagements with non-Provincial clients<br>• Two post financial close engagements |
| **GOAL 2**<br>**Satisfy Clients** | • Client survey results indicate Partnerships BC performance meets or exceeds client requirements | • Client review system refined and reassessed<br>• High level of client satisfaction<br>• 92.3% overall client satisfaction |
| **GOAL 3**<br>**Become Commercially Viable** | • Meet financial plan targets (net income = 1,215,000)<br>• Equity exceeds six month operating expenses | • Net income targets met (net income = $1,462,386)<br>• Equity target met |
| **GOAL 4**<br>**To Serve the Public Interest and Ensure Competitive, Fair and Transparent Processes** | • Publish Value for Money Disclosure Report after every financial closing where size and scope warrants<br>• Publish fairness and probity opinions on all projects where size and scope warrents review | • All closed projects demonstrated value-for-money through either published reports or other communications<br>• Positive fairness reports for applicable closed projects (three)<br>• Positive recognition for fairness and disclosure processes |
| **GOAL 5**<br>**To be widely recognized as a Centre of Expertise** | • Annual examples of external recognition and replication<br>• Revenue generation from non-Province of B.C. clients<br>• New market participants in B.C. | • Numerous examples of best practices applied<br>• Contracts or information shared with, for example, Yukon, Quebec, Ontario, Government of Canada, Resort Municipality of Whistler<br>• Numerous new equity players, lenders, and developers |
| **GOAL 6**<br>**Build and Retain the Team** | • Measures will be set based on issues identified through client feedback and through employee feedback<br>• Employee Satisfaction | • Strategic and operational Human Resource functions staffed<br>• Performance Management System refined |

## TARGETS (2006-07 TO 2008-09 CORPORATE GOALS)

| **Goal 1 – Structure and Implement Public-Private Partnership Solutions which serve the public interest** | **2006-07 Targets** | **2007-08 Targets** | **2008-09 Targets** |
|---|---|---|---|
| Public Private Partnership development agreement engagements with Province and/or other agencies | Positive assessment by Board of Directors of engagements achieved | Positive assessment by Board of Directors of engagements achieved | Positive assessment by Board of Directors of engagements achieved |
| Revenue Growth | 11% | 3% | 3% |
| Client survey results indicate Partnerships British Columbia performance meets or exceeds client expectations | 85% client satisfaction | 85% client satisfaction and demonstrable improvement in service delivery | 85% client satisfaction and demonstrable improvement in service delivery |
| Project milestones achieved | Positive assessment by Board of Directors (on project milestones achieved) | Positive assessment by Board of Directors (on project milestones achieved) | Positive assessment by Board of Directors (on project milestones achieved) |
| Publish Value for Money Disclosure Report on all projects after financial close has been reached | 100% reports published | 100% reports published | 100% reports published |
| Publish fairness and probity opinions on projects where size and scope warrants review | 100% reports published | 100% reports published | 100% reports published |
| **Goal 2 – Encourage Development of the Public Private Partnership Market in British Columbia** | **06/07 Targets** | **07/08 Targets** | **08/09 Targets** |
| New market participants in B.C. | Number of new market participants | Number of new market participants | Number of new market participants |
| Annual examples of best practices established, acknowledged and adopted within the Provincial government and by other governments | Examples published /Revenue from non-BC sources | Examples published /Revenue from non-BC sources | Examples published /Revenue from non-BC sources |
| Annual examples of synergies and process cost reductions | Benchmark strategy to be developed | TBD | TBD |
| External validation (e.g. awards, informed media coverage etc.) | Examples from third party validators | Examples from third party validators | Examples from third party validators |
| **Goal 3 – Remain Commercially Viable and Increase Productivity** | | | |
| Meet financial plan targets (minimum 15% net income margin pre-variable compensation)<br>Net income margin<br>Minimize charge-out rates to clients | 15% net income margin (pre-variable compensation), 9% net income margin, and other financial plan targets met or exceeded, charge-out rates unchanged from 2005/06 | 15% net income margin (pre-variable compensation), 10% net income margin, and other financial plan targets met or exceeded, charge-out rates unchanged from 2006/07 | 15% net income margin (pre-variable compensation), 17 % net income margin , and other financial plan targets met or exceeded. Rate review |
| Employee satisfaction<br>Targeted and relevant training | 85% employee satisfaction<br>5% of compensation costs | 85% employee satisfaction<br>5% of compensation costs | 85% employee satisfaction<br>5% of compensation costs |

*Reflects completion fee for Abbotsford Regional Hospital and Cancer Care Centre project in 2008/2009*

# Alignment with Government's Strategic Plan

**Golden Ears Bridge (artist's rendering)**

The Government outlined five goals in the February 2005 Throne Speech, focusing on education and literacy, health and physical fitness, support for persons with disabilities, special needs, children at risk and seniors, sustainable environmental management, and job creation, detailed as follows:

- **Goal 1:** To make British Columbia the best educated, most literate jurisdiction on the continent
- **Goal 2:** To lead the way in North America in healthy living and physical fitness
- **Goal 3:** To build the best system of support in Canada for persons with disabilities, special needs, children at risk and seniors
- **Goal 4:** To lead the world in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none
- **Goal 5:** To create more jobs per capita than anywhere else in Canada

Public private partnerships provide a foundation for all of these goals by delivering major capital projects that meet public needs at minimum lifecycle cost and with an optimum sharing of risks between the public and private sectors.

More specifically, Partnerships British Columbia supports goals one through four by providing necessary infrastructure to British Columbia as quickly and efficiently as possible. Meeting provincial infrastructure needs in general is essential to a strong provincial economy. For example, an up-to-date and well maintained transportation system helps keep goods, services and people moving efficiently and safely. Road improvements, such as the Sea to Sky Highway Improvement Project and the Kicking Horse Canyon (Phase 2) project also support sector development in tourism and resort development.

Partnerships British Columbia projects directly support goal five by supporting economic growth in British Columbia, and encouraging and facilitating private sector involvement in the delivery of critical public sector infrastructure and services. In addition, Partnerships British Columbia projects support the creation of direct and indirect employment, attracting foreign capital and investment, and transferring appropriate risk to the private sector. Several firms providing advisory, construction and financing services to the public private partnerships market have opened up British Columbia based offices since Partnerships British Columbia's establishment.

# Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) of Partnerships British Columbia Inc. (Partnerships British Columbia or the Company) is intended to be read in conjunction with the audited consolidated financial statements and accompanying notes. The results reported have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and are presented in Canadian dollars.

This MD&A also contains forward-looking statements, including statements regarding business and anticipated financial performance of the Company. Forward-looking statements are subject to a number of risks and uncertainties that may cause actual results or performance to differ materially from forecasted results expressed or implied.

## Highlights

***1. Increase in 2005-06 Consolidated Net Income***

Partnerships British Columbia's consolidated net income increased to $1,462,000 in 2005-06 compared to $290,000 in 2004-05. This increase was due to increased project activity and associated work fee revenues and management of expenditures.

***2. Increase in 2005-06 Consolidated Revenues***

Partnerships British Columbia's consolidated revenues increased to $8,715,000 in 2005-06 compared to $6,369,000 in 2004-05. This increase was due to increased project activity.

***3. Improved Balance Sheet***

Partnerships British Columbia's unrestricted cash and cash equivalents increased to $6,888,000 in 2005-06 compared to $4,867,000 in 2004-05.

***4. Projects Reaching Financial Close***

During the year, the following projects achieved financial close with direct involvement from Partnerships British Columbia:

William R. Bennett Bridge
Sea-to-Sky Highway Improvement Project
Kicking Horse Canyon (Phase 2)
Yukon Telecommunications (cellular)
Golden Ears Bridge
Canada Line Project

***5. Projects in Procurement Stage***

Northern Health Residential Care and Assisted Living Capacity Initiative (Prince George and Prince Rupert)

Vancouver Coastal Health Primary Health Care Access Centres

Vancouver Island Health Authority Residential Care and Assisted Living Capacity Initiative

Whistler Sewage Treatment Plant

***6. New Board Member***

Partnerships British Columbia welcomed Dan Doyle as a new member of its Board of Directors. Mr. Doyle is a veteran of the transportation industry with 37 years experience across the province in all areas of transportation policy and project management.

***7. Achievements and Awards***

The Sea-to-Sky Highway Improvement Project and the Abbotsford Regional Hospital and Cancer Centre (ARHCC) won the *Canadian Council for Public Private Partnerships Gold Award* and *Award for Merit* respectively – both in the Project Financing category. In addition, the Canada Line Project received the *Project Finance Magazine North American Transport Deal of the Year* award.

# Annual Financial Performance

## Comparison of 2005-06 and 2004-05 Financial Performances

The audited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, ABHCC Inc.

The Company had consolidated revenues of $8,714,803 in Fiscal 2005-06 compared to $6,369,431 in Fiscal 2004-05. Net income was $1,462,386 in Fiscal 2005-06 compared to a net income of $289,516 last year.

The table below presents a comparison of selected income statement items of the current fiscal year with those of the previous fiscal year.

| | | | (% of revenues) | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Revenues | $ 8,714,803 | $ 6,369,431 | | |
| Project recoveries | 3,393,607 | 10,161,385 | 38.9% | 159.5% |
| Project expenses | 3,393,607 | 10,181,605 | 38.9% | 159.9% |
| Salaries and benefits | 5,236,971 | 4,372,481 | 60.1% | 68.6% |
| General and administrative expenses | 1,857,138 | 1,539,456 | 21.3% | 24.2% |
| Amortization | 158,308 | 147,758 | 1.8% | 2.3% |
| Net income for the year | $ 1,462,386 | $ 289,516 | 16.8% | 4.5% |

The increase in consolidated revenues was attributable to an increase in work fees from existing projects and new engagements with ministries, agencies, municipalities, colleges, universities, health authorities and other provinces. Overall, the make up of revenues has shifted from a completion and milestone fee model to one of a consulting organization model. This was evidenced by the increase in the percentage of work fees from 48% in Fiscal 2004-05 to 61% in Fiscal 2005-06.

## Consolidated Revenues

Consolidated revenues for Fiscal 2005-06 were $8,714,803 of which $5,290,885 or 61 per cent was for work fees, $1,321,786 or 15 per cent was for completion and milestone fees and $1,800,000 or 21 per cent was revenue from the Company's contract with the Province of British Columbia (government services contract). In comparison, consolidated revenues for the year ended March 31, 2005 were $6,369,431 of which $3,056,801 or 48 per cent was for work fees, $1,392,500 or 22 per cent was for completion and milestone fees and $1,800,000 or 28 per cent was revenue from the government services contract.

At the beginning of Fiscal 2005-06, the Company implemented a new pricing policy for all its current and new engagements. The pricing policy reflected the Company's shift from a fixed fee and a completion and milestone fee model to one of a work fee model. As a result of the new pricing policy and an increase in the number of new engagements, the Company's consolidated work fee revenue increased by 73%.

The table below provides details of the Company's revenues by category.

| | 2006 | 2005 | Change | % |
|---|---|---|---|---|
| Work fees | $ 5,290,885 | $ 3,056,801 | $ 2,234,084 | 73.1% |
| Completion and milestone fees | 1,321,786 | 1,392,500 | (70,714) | 5.1% |
| Provincial government revenue | 1,800,000 | 1,800,000 | | 0.0% |
| Other revenue | 302,132 | 120,130 | 182,002 | 151.5% |
| | $ 8,714,803 | $ 6,369,431 | $ 2,345,372 | 36.8% |

## Work Fees

Work fees typically reflect the cost of providing services and are not directly related to milestone events or performance.

Work fees were recognized from several provincial government ministries, Crown Agencies, universities, colleges and non-ministry sources. In Fiscal 2005-06, Partnerships British Columbia's clients included:

- Ministry of Transportation
- Ministry of Health and other Provincial Health Authorities
- Ministry of Education
- Ministry of Sustainable Resource Management
- Royal Roads University
- University of Northern British Columbia
- Yukon Government
- Province of Quebec
- Resort Municipality of Whistler
- TransLink

The table below provides details of the Company's work fees by sector.

| | 2006 | 2005 | % 2006 | % 2005 |
|---|---|---|---|---|
| Ministry of Transportation | $ 2,075,992 | $ 1,681,773 | 39.2% | 55.0% |
| Ministry of Health and Provincial Health Authorities | 1,632,374 | 586,600 | 30.9% | 19.2% |
| Universities and Colleges | 613,268 | 202,968 | 11.6% | 6.6% |
| Ministry of Education | 249,491 | – | 4.7% | 0.0% |
| Other Provincial Governments | 309,115 | 266,960 | 5.8% | 8.7% |
| Municipalities | 223,125 | – | 4.2% | 0.0% |
| Crown Corporations | 86,313 | 155,250 | 1.6% | 5.1% |
| Others | 101,207 | 163,250 | 1.9% | 5.3% |
| | $ 5,290,885 | $ 3,056,801 | 100.0% | 100.0% |

## Completion and Milestone Fees

Completion and milestone fees are recognized when the services rendered under contracts are completed or the milestones are achieved, dependent upon a performance review by the client.

Completion and milestone fees of $1,321,786 were recognized for Fiscal 2005-06 compared to $1,392,500 for Fiscal 2004-05. The completion and milestone fees were mainly earned from three Ministry of Transportation projects which reached financial close during the year: the William R. Bennett Bridge Project; the Sea-to-Sky Highway Improvement Project; and the Kicking Horse Canyon (Phase 2) Project.

By comparison, in 2004-05, the Company earned $1,392,500 from completion and milestone fees. Completion and milestone fees were comprised of the second completion and milestone fee on the ARHCC project which was a fee of $1,000,000 earned for reaching financial close. The Company also earned a completion and milestone fee of $200,000 from the Ministry of Transportation for meeting their performance expectations in 2004-05. An additional $150,000 completion and milestone fee was earned from the Ministry of Sustainable Resource Management when financial close was achieved on the Britannia Mine Water Treatment Plant project.

The table below provides details of the Company's completion and milestone fees by sector.

| | 2006 | 2005 | % 2006 | % 2005 |
|---|---|---|---|---|
| Ministry of Transportation | $ 1,321,786 | $ 200,000 | 100.0% | 14.4% |
| Ministry of Health and Provincial Health Authorities | – | 1,000,000 | 0.0% | 71.8% |
| Ministry of Sustainable Resource Management | – | 150,000 | 0.0% | 10.8% |
| Universities and Colleges | – | 12,500 | 0.0% | 0.9% |
| Others | – | 30,000 | 0.0% | 2.2% |
| | $ 1,321,786 | $ 1,392,500 | 100.0% | 100.0% |

As previously indicated, the Company is moving away from a completion and milestone fees model. The anticipated decrease in completion and milestone fees in Fiscal 2006-07 is forecast to be offset by an increase in work fees.

## Provincial Government Revenue

Under the terms of the government services contract, the provincial government provides the Company with an annual payment for a variety of services, including:

- generally developing the public private partnership market for British Columbia projects;
- assisting agencies in identifying and assessing public private partnership opportunities;
- providing policy expertise;
- developing best practices for public private partnerships and alternative procurement methods;
- exploring opportunities in other jurisdictions to expand the application of best practices across Canada; and
- providing other advisory and consulting services directly to the Province and or organizations on an ongoing basis where costs are not attributable to a specific project.

This revenue is recognized on a monthly basis.

The government services contract commenced on April 1, 2002 and has a termination/renewal date of March 31, 2008, subject to renewal provisions.

There was no change in the provincial government revenue earned in Fiscal 2005-06 which remained at $1,800,000.

## Project Recoveries

Project recoveries represent reimbursable project expenses such as legal and consulting fees that are normally recovered. For Fiscal 2005-06, project recoveries were $3,393,607 compared to $10,161,385 for Fiscal 2004-05. The decrease in project recoveries was due to several large transportation projects reaching financial close.

## Other Revenue

Other revenue consists of interest income earned on surplus cash. For Fiscal 2005-06, other revenue was $176,732, compared to $120,130 for the year ended March 31, 2005. The increase was due to the increase in cash on hand.

Other revenue also included a one-time receipt of $125,400 from the Ministry of Finance to cover the Province's compensation to non-union employees. This was part of the initiative announced by the Minister of Finance in November 2005. The addition of this one-time revenue brought total Other Revenue up to $302,132.

## Comparison to Budget

The table below provides details of the Company's actual and budgeted revenues for Fiscal 2005-06.

| | 2006 Actual | 2006 Budget | Change | % |
|---|---|---|---|---|
| Work fees | $ 5,290,885 | $ 4,455,036 | $ 835,849 | 18.8% |
| Completion and milestone fees | 1,321,786 | 1,583,500 | (261,714) | 16.5% |
| Provincial government revenue | 1,800,000 | 1,800,000 | | 0.0% |
| Other revenue | 302,132 | 130,160 | 171,972 | 132.1% |
| | $ 8,714,803 | $ 7,968,696 | $ 746,107 | 9.4% |

Overall, revenues for Fiscal 2005-06 were 9 per cent greater than budget at $746,107. Excluding the one-time receipt of $125,400 received from the Ministry of Finance (see Other Revenue above), the increase was $620,707 or 8 per cent. The change was primarily due to additional work fees earned from existing projects and new engagements from ministries, agencies, municipalities, colleges, universities, health authorities and other government.

The decrease in completion and milestone fees was due to a revision to an existing engagement where the client requested their work fees be based on actual time spent rather than a fixed fee together with a completion and milestone fee on financial close.

## Expenses

The table below provides details of the Company's operating expenses.

| | 2006 | 2005 | Change | % |
|---|---|---|---|---|
| Salaries and benefits | $ 5,236,971 | $ 4,372,481 | $ 864,490 | 19.8% |
| Administration | 366,846 | 322,541 | 44,305 | 13.7% |
| Building occupancy | 479,531 | 440,372 | 39,159 | 8.9% |
| Communications | 83,508 | 73,594 | 9,914 | 13.5% |
| Information systems | 169,319 | 166,654 | 2,665 | 1.6% |
| Professional services | 538,531 | 359,850 | 178,681 | 49.7% |
| Travel | 219,403 | 176,445 | 42,958 | 24.3% |
| Amortization | 158,308 | 147,758 | 10,550 | 7.1% |
| | $ 7,252,417 | $ 6,059,695 | $ 1,192,722 | 19.7% |
| % of expenses over revenues | 83.2% | 96.1% | | |

Operating expenses increased by $1,192,722 from $6,059,695 to $7,252,417 due to increases in salaries and benefits, administration expenses, professional services, building occupancy costs, and travel expenses.

The increase in salaries and benefits was due to the growth the Company experienced and the need to service existing and new projects. The Company started the year with 32.6 FTEs and had 36.2 FTEs as at March 31, 2006[1]. In addition, there was an average salary increase of 3 per cent which was consistent with budget.

Included in salaries and benefits was a one-time compensation payment of $125,400 to employees as per the compensation plan approved by the Minister of Finance to all non-union employees in November 2005. Please refer to Other Revenue above.

The increase in administration expenses was due to the increased number of employees as described above and also the increased number of client forums and workshops to support public private partnerships.

The increase in professional fees was due to the following:

- legal fees to prepare standardized contract provisions;
- consulting fees to improve the Company's existing file management system;
- consulting fees to update the Company's performance benchmarks;
- consulting fees to analyze the accounting treatment on public private partnerships projects;

[1] *Throughout Fiscal 2005-06, total FTEs grew from 33 to 38, though not all FTEs were filled at all times throughout the year*

- consulting fees to retain a Human Resources consultant;
- consulting fees to conduct a review of the Company's compensation plans;
- fees for the review of the Sea-to-Sky Highway Improvement Project value-for-money report; and
- leadership development.

The total professional fees incurred in 2005-06 of $538,531 was consistent with budget.

The increase in building occupancy costs was due to increases in base rents for its Vancouver office and operating costs for its Vancouver and Victoria offices. The Company experienced a tightening of the downtown Vancouver real estate market which resulted in an increase of $1.50 per square foot on 2,000 square feet of project office space.

The Vancouver office lease expired on March 31, 2006. Effective April 1, 2006, the Company's Vancouver office is located at Suite 2320, 1111 West Georgia Street, Vancouver, B.C. The Company signed a sub-lease agreement for approximately 9,000 square feet effective April 1, 2006 for a period of three years and seven months. The move was necessary to accommodate the additional staff required to service existing and new project engagements.

The increase in travel expenses was due to the increase in the number of employees, out-of-province trips for business development and promotion of public private partnerships, and fuel surcharges from transportation companies.

The Company's communications, information system, and amortization expenses were comparable with Fiscal 2004-05 with increases of $9,914, $2,665 and $10,550 respectively. The Company managed to control its expenses as evidenced by the per centage of expenses over revenues of 83 per cent in Fiscal 2005-06 compared to 95 per cent in Fiscal 2004-05. The Company will continue to closely monitor and control its non-recoverable expenses going forward.

## Comparison to Budget

The table below provides details of the Company's actual and budgeted expenses for Fiscal 2005-06.

| | 2006 Actual | 2006 Budget | Change | % |
|---|---|---|---|---|
| Salaries and benefits | $ 5,236,971 | $ 4,867,323 | $ 369,648 | 7.6% |
| Administration | 366,846 | 308,819 | 58,027 | 18.8% |
| Building occupancy | 479,531 | 415,046 | 64,485 | 15.5% |
| Communications | 83,508 | 75,000 | 8,508 | 11.3% |
| Information systems | 169,319 | 154,020 | 15,299 | 9.9% |
| Professional services | 538,531 | 607,000 | (68,469) | 11.3% |
| Travel | 219,403 | 177,200 | 42,203 | 23.8% |
| Amortization | 158,308 | 149,635 | 8,673 | 5.8% |
| | $ 7,252,417 | $ 6,754,043 | $ 498,374 | 7.4% |
| % of expenses over revenues | 83.2% | 84.8% | | |

The increase in actual expenses in comparison to budget was mainly due to the increase in professional staff required to service existing and new projects. Even though, there was a 7.4 per cent increase in expenses, the per centage of actual expenses over revenues was 83 per cent, slightly better than the budget target of 85 per cent.

Excluding the one-time compensation payment of $125,400 initiated by the Minister of Finance to all non-union employees, the increase would have been $372,974 or 5.5 per cent.

## Balance Sheet

The table below presents a comparison of selected balance sheet items of the current fiscal year with those of the previous fiscal year. The following table should be read in conjunction with Note 3 to the Notes to Consolidated Financial Statements.

| | 2006 | 2005 | Change | % |
|---|---|---|---|---|
| Cash and cash equivalents | $ 30,452,092 | $ 14,194,277 | $ 16,257,815 | 114.5% |
| Accounts receivable | 4,187,911 | 4,920,980 | (733,069) | -14.9% |
| Long term investment | 709,350 | 587,161 | 122,189 | 20.8% |
| Land | 4,611,647 | 4,611,647 | | 0.0% |
| Construction in progress | 120,686,777 | 32,740,568 | 87,946,209 | 268.6% |
| Deferred development costs | 12,314,825 | 10,579,665 | 1,735,160 | 16.4% |
| Other assets | 425,963 | 409,154 | 16,809 | 4.1% |
| **Total assets** | 173,388,565 | 68,043,452 | 105,345,113 | 154.8% |
| Accounts payable and accrued liabilities | 2,610,603 | 4,004,167 | (1,393,564) | -34.8% |
| Deferred revenue | 65,000 | 111,724 | (46,724) | -41.8% |
| Loan payable | 104,367,456 | 33,572,222 | 70,795,234 | 210.9% |
| Deferred capital contribution | 55,501,813 | 20,974,032 | 34,527,781 | 164.6% |
| **Total liabilities** | 162,544,872 | 58,662,145 | 103,882,727 | 177.1% |
| **Total shareholder's equity** | $ 10,843,693 | $ 9,381,307 | $ 1,462,386 | 15.6% |

## Assets

Cash and cash equivalents (including long-term investment) increased by $16,380,004 from $14,781,438 as at March 31, 2005 to $31,161,442 as at March 31, 2006. The breakdown in cash and cash equivalents as at March 31, 2006 was as follows: $6,888,474 in cash, $21,927,302 in restricted cash, and $2,345,666 in investments (short and long-term, of which $1,884,000 was pledged to the Canadian Imperial Bank of Commerce as security for two Letters of Credit to the City of Abbotsford). In comparison, as at March 31, 2005, the breakdown was: $4,867,017 in cash, $8,289,081 in restricted cash and $1,625,340 in investments (short and long-term). The increase in unrestricted cash was due to stronger operating activities. The increase in restricted cash was due to receipt of $13,800,000 from the Fraser Valley Regional Hospital District (FVRHD) to fund the construction costs on the ARHCC in the last quarter of Fiscal 2005-06.

Accounts receivable decreased by $733,069 from $4,920,980 to $4,187,911. The decrease was attributable to the Company's collection efforts and also an improved system which allowed the Company to recover its out of pocket or recoverable costs from its clients in a timely manner.

Net book value of capital assets increased by $8,500, represented by amortization expense of $158,308 less purchases of $166,808. The significant change was the development and completion of an in-house Knowledge Management System. The capital asset additions were in line with the Company's Fiscal 2005-06 capital asset budget of $178,360.

There were no significant changes to either the Land or Other Assets accounts.

Construction in progress represents the total construction costs approved for payment by ARHCC's independent certifier. As at March 31, 2006, the independent certifier had approved claims totalling $117,076,643. The remaining balance consisted of project construction insurance and work permit fees. The construction in progress as at March 31, 2006 was $120,686,777. Upon completion of the project in May 2008, ownership of ARHCC will be transferred to the FHA and the Provincial Health Services Authority (PHSA), as the organizations overseeing the operations of the hospital and cancer centre.

Deferred development costs represent the direct development and overhead costs attributable to the ARHCC project. These costs increased by $1,735,160 from $10,579,665 to $12,314,825.

## Liabilities and Shareholder's Equity

Deferred revenue represents retainers received from two projects that will be applied against work fees and reimbursable expenses in Fiscal 2006-07.

Loans payable increased by $70,795,234 in Fiscal 2005-06 as Access Health Abbotsford (AHA) funded ARHCC's construction costs.

Deferred capital contribution represents contributions received from FVRHD and reimbursements from the Ministry of Health for ARHCC's monthly operating costs. During the year, FVRHD contributed $32,300,000 and $2,227,781 was received from the Ministry of Health, resulting in a balance of $55,501,813 as at March 31, 2006.

## Statements of Cash Flows

***Liquidity and capital resources***

The table below presents a comparison of the Company's working capital position for the current fiscal year with those of the previous fiscal year.

| | 2006 | 2005 | Change |
|---|---|---|---|
| Cash and cash equivalents | $ 30,452,092 | $ 14,194,277 | $ 16,257,815 |
| Accounts receivable | 4,187,911 | 4,920,980 | (733,069) |
| Other current assets | 72,370 | 64,061 | 8,309 |
| | 34,712,373 | 19,179,318 | 15,533,055 |
| Accounts payable and accrued liabilities | 2,610,603 | 4,004,167 | (1,393,564) |
| Deferred revenue | 65,000 | 111,724 | (46,724) |
| Net working capital | $ 32,036,770 | $ 15,063,427 | $ 16,973,343 |

As at March 31, 2006, the Company's principal sources of liquidity include cash and cash equivalents of $30,452,092 and accounts receivable of $4,187,911. The Company also has $2,610,603 in accounts payable and accrued liabilities due next year.

***Cash flow from operating activities***

Cash flow from operating activities was $905,166 in Fiscal 2005-06 compared to a cash flow of $4,566,497 in Fiscal 2004-05. The significant decrease was due to changes in working capital items, accounts and notes receivables.

***Cash flow from investing activities***

Investing activities cash flow was $89,970,366 in Fiscal 2005-06 compared to $10,624,226 in Fiscal 2004-05. Capital asset acquisitions were $166,808 in Fiscal 2005-06 compared to $63,849 in Fiscal 2004-05. The change was mainly due to the development and completion of an in-house Knowledge Management System. Construction in progress for the ARHCC project was $87,946,209. The balance of $1,735,160 was capitalized operating expenses incurred on behalf of ARHCC.

***Cash flow from financing activities***

Cash flow from financing activities was $105,323,015 in Fiscal 2005-06 compared to $15,975,917 in Fiscal 2004-05. The Company received $70,795,234 from AHA and $32,300,000 from FVRHD to fund ARHCC's construction costs.

## Commitments

The Company is committed to payments under operating leases for premises through Fiscal 2009-10 as follows:

| Year | Amount |
|---|---|
| 2007 | $ 529,334 |
| 2008 | 416,826 |
| 2009 | 317,561 |
| 2010 | 185,244 |
| | $ 1,448,965 |

## Contractual Obligations

Under a public private partnership agreement, the Company, through ARHCC contracted with the private sector partner, AHA, to build a hospital and cancer centre, including equipment, at a cost of $355 million. The FVRHD is contributing a total of $71 million to the total cost. The remainder of the cost will be advanced by AHA, which will be repaid over the term of the agreement.

The agreement also provides for AHA to operate and maintain the hospital and cancer centre from the time it opens in May of 2008 and continuing until April 2038.

ARHCC will make payments from the time the hospital and cancer centre opens to the end of the term. The first year's payment will be $40.8 million, excluding any bonuses or penalties and future payments will be adjusted for inflation (recognizing that ARHCC will be transferred to the FHA and PHSA in May 2008 at facility commissioning).

## Selected Annual Information

The following table presents selected financial information for the years ended March 31, 2006, 2005 and 2004.

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Total revenues | $ 8,714,803 | $ 6,369,431 | $ 7,424,651 |
| Total operating expenses | $ 7,252,417 | $ 6,059,695 | $ 5,170,229 |
| Net income | $ 1,462,386 | $ 289,516 | $ 1,965,993 |
| Total current assets | $ 34,712,373 | $ 19,179,318 | $ 14,491,076 |
| Total assets | $173,388,565 | $ 68,043,452 | $ 21,210,467 |
| Total current liabilities | $ 2,675,603 | $ 4,115,891 | $ 6,723,914 |
| Total liabilities | $162,544,872 | $ 58,662,145 | $ 14,686,776 |

# Management Report

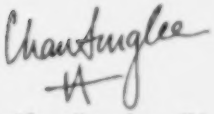
The consolidated financial statements of Partnerships British Columbia Inc. for the year ended March 31, 2006, have been prepared by management in accordance with Canadian generally accepted accounting principles. These consolidated financial statements present fairly the financial position of Partnerships British Columbia Inc. as at March 31, 2006.

Management is responsible for the preparation of the consolidated financial statements and has established a system of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records provide reliable information for the preparation of consolidated financial statements.

The Board of Directors carries out its responsibility for the review of the consolidated financial statements. The Board meets with management and the external auditor to discuss the results of audit examinations and financial reporting matters. The external auditor has full access to the Board.

The Auditor General of British Columbia has performed an independent audit of the consolidated financial statements of Partnerships British Columbia. The Auditor's report outlines the scope of his examination and expresses an opinion on the consolidated financial statements of Partnerships British Columbia Inc.

Larry Blain
**President and Chief Executive Officer**
*Partnerships British Columbia Inc.*



Chan-Seng Lee, CA
**Comptroller**
*Partnerships British Columbia Inc.*

# Report of the Office of the Auditor General of British Columbia

*To the Board of Directors of*
*Partnerships British Columbia Inc., and*

*To the Shareholder of Partnerships British Columbia Inc.:*

We have audited the consolidated balance sheet of *Partnerships British Columbia Inc.* as at March 31, 2006 and the consolidated statements of income and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of *Partnerships British Columbia Inc.* as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Victoria, British Columbia*
*May 5, 2006*

Errol S. Price, CA
Deputy Auditor General

**PARTNERSHIPS BRITISH COLUMBIA INC.**
**Consolidated Balance Sheets as at March 31**

| | 2006 | 2005 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents (Note 4) | $ 30,452,092 | $ 14,194,277 |
| Accounts receivable | 4,187,911 | 4,920,980 |
| Other current assets | 72,370 | 64,061 |
| Total current assets | 34,712,373 | 19,719,318 |
| Long-term investment (Note 4) | 709,350 | 587,161 |
| Capital assets (Notes 2 and 5) | 353,593 | 345,093 |
| Land (Note 10) | 4,611,647 | 4,611,647 |
| Construction in progress (Note 6) | 120,686,777 | 32,740,568 |
| Deferred development costs (Note 7) | 12,314,825 | 10,579,665 |
| **Total assets** | **$ 173,388,565** | **$ 68,043,452** |

*The accompanying Notes to Consolidated Financial Statements are an integral part of these Statements.*

**APPROVED ON BEHALF OF THE BOARD**

R.T. Mahler, *Director*

M.E. Morfitt, *Director*

**PARTNERSHIPS BRITISH COLUMBIA INC.**
**Consolidated Balance Sheets as at March 31**

| | 2006 | 2005 |
|---|---|---|
| **LIABILITIES** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | $ 2,610,603 | $ 4,004,167 |
| Deferred revenue | 65,000 | 111,724 |
| Total current liabilities | 2,675,603 | 4,115,891 |
| Loan payable (Note 8) | 104,367,456 | 33,572,222 |
| Deferred capital contribution (Note 9) | 55,501,813 | 20,974,032 |
| **Total liabilities** | **162,544,872** | **58,662,145** |
| **SHAREHOLDER'S EQUITY** | | |
| Share capital | | |
| Authorized | | |
| 5,000,000 common shares, no par value | | |
| Issued | | |
| 2 common shares | 2 | 2 |
| Contributed surplus (Note 10) | 7,152,726 | 7,152,726 |
| Retained earnings | 3,690,965 | 2,228,579 |
| **Total shareholder's equity** | **10,843,693** | **9,381,307** |
| **Total liabilities and shareholder's equity** | **$ 173,388,565** | **$ 68,043,452** |

*The accompanying Notes to Consolidated Financial Statements are an integral part of these Statements.*

**PARTNERSHIPS BRITISH COLUMBIA INC.**

**Consolidated Statements of Income and Retained Earnings for the Years Ended March 31**

| | 2006 | 2005 |
|---|---|---|
| **REVENUES** | | |
| Fees for services | $ 6,612,671 | $ 4,449,301 |
| Provincial government revenue | 1,800,000 | 1,800,000 |
| Other revenue | 302,132 | 120,130 |
| | 8,714,803 | 6,369,431 |
| **EXPENSES** | | |
| Operating expenses | | |
| Administration | 366,846 | 322,541 |
| Amortization | 158,308 | 147,758 |
| Building occupancy | 479,531 | 440,372 |
| Communications | 83,508 | 73,594 |
| Information systems | 169,319 | 166,654 |
| Professional services | 538,531 | 359,850 |
| Salaries and benefits | 5,236,971 | 4,372,481 |
| Travel | 219,403 | 176,445 |
| Total operating expenses | 7,252,417 | 6,059,695 |
| Operating income | 1,462,386 | 309,736 |
| Project recoveries | 3,393,607 | 10,161,385 |
| Project expenses (Note 11) | 3,393,607 | 10,181,605 |
| | - | (20,220) |
| Net income | 1,462,386 | 289,516 |
| Retained earnings, beginning of year | 2,228,579 | 1,939,063 |
| **Retained earnings, end of year** | **$ 3,690,965** | **$ 2,228,579** |

*The accompanying Notes to Consolidated Financial Statements are an integral part of these Statements.*

**PARTNERSHIPS BRITISH COLUMBIA INC.**
**Consolidated Statements of Cash Flows for the Years Ended March 31**

| | 2006 | 2005 |
|---|---|---|
| **Operating activities** | | |
| Net income | $ 1,462,386 | $ 289,516 |
| Add: | | |
| Amortization | 158,308 | 147,758 |
| | 1,620,694 | 437,274 |
| Changes in working capital items: | | |
| Accounts receivable | 733,069 | 3,759,665 |
| Note receivable | - | 1,520,095 |
| Other current assets | (8,309) | (49,814) |
| Accounts payable and accrued liabilities | (1,393,564) | (262,447) |
| Deferred revenue | (46,724) | (838,276) |
| Cash provided by operating activities | 905,166 | 4,566,497 |
| **Investing activities** | | |
| Increase in long-term investment | (122,189) | (587,161) |
| Purchase of capital assets | (166,808) | (63,849) |
| Acquisition of land and construction in progress | (87,946,209) | (5,683,940) |
| Deferred development costs | (1,735,160) | (4,289,276) |
| Cash (used) by investing activities | (89,970,366) | (10,624,266) |
| **Financing activities** | | |
| Short-term loan payable | - | (1,507,300) |
| Loan payable | 70,795,234 | 4,472,047 |
| Deferred capital contribution | 34,527,781 | 13,011,170 |
| Cash provided by financing activities | 105,323,015 | 15,975,917 |
| Increase in cash and cash equivalents | 16,257,815 | 9,918,188 |
| Cash and cash equivalents, beginning of year | 14,194,277 | 4,276,089 |
| **Cash and cash equivalents, end of year** | **$ 30,452,092** | **$ 14,194,277** |

*The accompanying Notes to Consolidated Financial Statements are an integral part of these Statements.*

## 1. NATURE OF BUSINESS

Partnerships British Columbia Inc. (Partnerships British Columbia or the Company) is a company owned by the Province of British Columbia (the Province) and governed by a Board of Directors reporting to its shareholder, the Minister of Finance. The Company has been mandated to promote public private partnerships and to advise, support and, in some cases, manage the creation of public private partnerships and to carry out related activities. The mandate of the Company is to maximize the value to the Province of public capital assets, such as hospitals, educational facilities, and highways and to minimize the cost and improve the quality of government services provided using these assets.

The Company's core business is to:

- Provide specialized services to the Province and its agencies in the procurement of major public projects, ranging from advice to business transaction and procurement management;
- Provide advice to the Province and its agencies on public private partnership project management, deal structure, risk management, procurement, and the selection and engagement of consultants;
- Foster a positive business and policy environment for successful public private partnerships and related activities by continually expanding British Columbia's base of knowledge, understanding and expertise in these emerging areas; and
- Manage an efficient and leading edge organization that meets or exceeds performance expectations.

The Company's clients are public sector agencies, including ministries, Crown corporations, and local authorities such as regional health districts. To serve these clients effectively, Partnerships British Columbia is also working to build strong relationships with private sector partners such as businesses, investors and the financial services sector.

The Company's wholly-owned subsidiary, Abbotsford Regional Hospital and Cancer Centre Inc. (ARHCC) (formerly Abbotsford Hospital and Cancer Centre Inc.) was incorporated under the *Business Corporations Act* on September 2, 2003 to enter into a public private partnership as the public sector partner for the building and operation of a hospital and cancer centre in Abbotsford, British Columbia. ARHCC was registered as a not-for-profit organization under Section 149(1)(l) of the *Income Tax Act*.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are as follows:

**a. Principles of Consolidation**

The Consolidated Financial Statements include the accounts of Partnerships British Columbia and its wholly-owned subsidiary ARHCC Inc.

**b. Short-Term Investments**

Short-term investments are carried at fair values.

**c. Capital Assets**

Capital assets are recorded at cost and amortized on a straight-line basis over their estimated useful lives using the following annual rates:

| | |
|---|---|
| • Computer software | 2 years |
| • Computer hardware | 3 years |
| • Furniture and equipment | 5 years |
| • Leasehold improvements | 5 years |
| • Knowledge management system | 2 years |
| • Website development | 3 years |

**d. Deferred Development Costs**

Deferred development costs represent the direct development and overhead costs directly attributable to the development of ARHCC. These costs include pre-acquisition costs such as environmental studies, legal and other professional services. When the project is complete, these costs will form part of the capitalized cost of the asset.

**e. Federal and Provincial Taxes**

Partnerships British Columbia is exempt from corporate income taxes; however, it is subject to the Goods and Services Tax (GST).

**f. Revenue Recognition**

*Project Recoveries*

Reimbursements of eligible expenses are recognized in the period the expenses are incurred.

*Fees for Services*

Partnerships British Columbia's fees for professional services are recognized in the period when the services are rendered. There are two types of fees for services – work fees, and completion and milestone fees. Work fees are recognized for services rendered in the period based on the extent of progress or per centage of completed deliverables. Completion and milestone fees are recognized when the services rendered under contracts are completed or the milestones are achieved.

*Deferred Capital Contribution*

The Company follows the deferral method of accounting for contributions. Contributions are recognized as revenue in the year in which the related expenses are incurred.

**g. Accounting Estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions based on information available. Such estimates and assumptions may affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual amounts could differ from those estimates.

### 3. CONSOLIDATION

Partnerships British Columbia incorporated a wholly-owned subsidiary, ARHCC, under the Business Corporations Act on September 2, 2003 and commenced operations on that date to provide a single public entity to contract with the private sector partner.

ARHCC entered into a project agreement with a private sector partner on December 7, 2004. Under the agreement, the private sector partner will design, construct, finance, operate and maintain the hospital and cancer centre until the end of the term of the agreement, May 6, 2038. All payment obligations to the private sector partner are guaranteed by the Province.

Once the facility is commissioned, ownership of ARHCC will be transferred to the Fraser Health Authority and the Provincial Health Services Authority as the organizations overseeing the operations of the hospital and cancer centre.

These Consolidated Financial Statements include the accounts of ARHCC as follows:

| | 2006 | 2005 |
|---|---|---|
| Current assets | $ 24,129,071 | $ 8,894,449 |
| Long term investment | 709,350 | 587,161 |
| Land | 4,611,647 | 4,611,647 |
| Construction in progress | 120,686,777 | 32,740,568 |
| Deferred development costs | 12,314,825 | 10,579,665 |
| Total assets | $ 162,451,670 | $ 57,413,490 |
| Current liabilities | $ 14,300 | $ 299,135 |
| Deferred capital contribution | 55,501,813 | 20,974,032 |
| Loan payable | 104,367,456 | 33,572,222 |
| Net assets | 2,568,101 | 2,568,101 |
| Total liabilities and net assets | $ 162,451,670 | $ 57,413,490 |

### 4. CASH AND CASH EQUIVALENTS

| | 2006 | 2005 |
|---|---|---|
| Cash | $ 6,888,474 | $ 4,867,017 |
| Restricted cash | 21,927,302 | 8,289,081 |
| Short-term investments | 1,636,316 | 1,038,179 |
| | $ 30,452,042 | $ 14,194,277 |

Restricted cash represents contributions from the Fraser Valley Regional Hospital District for construction costs in relation to the hospital and cancer centre (see Note 1). The contributions are included in deferred capital contribution referred to in Note 9.

Short-term investments consist of liquid investment, such as the Province of British Columbia Pooled Investment Portfolios, term deposits, money market instruments, and Canadian government securities with maturities of 90 days or less from the date of purchase. Investments totalling $1,883,028 are pledged as security for two (2) letters of credit. Investments with maturities greater than one year are disclosed as long-term investments.

### 5. CAPITAL ASSETS

| | Cost | Accumulated Amortization | Net Book Value 2006 | Net Book Value 2005 |
|---|---|---|---|---|
| Computer software | $119,489 | $ 81,514 | $ 37,975 | $ 3,079 |
| Computer hardware | 184,216 | 107,366 | 76,850 | 62,503 |
| Furniture and equipment | 159,390 | 88,740 | 70,650 | 131,471 |
| Leasehold improvements | 207,204 | 105,498 | 101,706 | 141,907 |
| Knowledge management system | 80,584 | 14,172 | 66,412 | - |
| Website development | 18,398 | 18,398 | - | 6,133 |
| | $769,281 | $ 415,688 | $353,593 | $345,093 |

### 6. CONSTRUCTION IN PROGRESS

Construction in progress is recorded at cost. The balance represents the per centage of construction completed as certified by an independent third party certifier.

### 7. DEFERRED DEVELOPMENT COSTS

Deferred development costs represent the accumulation of all planning costs directly attributable to the acquisition of the hospital and cancer centre (see Note 1). These costs will be amortized in future periods.

### 8. LOAN PAYABLE

The value of the construction in progress is recorded as a loan payable. Partial repayments are made from contributions received from the Fraser Valley Regional Hospital District. These repayments are made on a quarterly basis. (See Note 13)

### 9. DEFERRED CAPITAL CONTRIBUTION

Deferred capital contribution represents the contributions received from the Fraser Valley Regional Hospital District and reimbursements from the Ministry of Health for the Company's monthly operating costs. During the year, the Company received $32,300,000 (2005 - $8,620,000) in contributions from the Fraser Valley Regional Hospital District and $2,227,781 (2005 - $4,391,170) from the Ministry of Health.

### 10. CONTRIBUTED SURPLUS

Partnerships British Columbia was incorporated on October 26, 1977 (as Duke Point Development Limited) under the Business Corporations Act, formerly the Company Act, as a Crown corporation of the Province. In March 2002, Duke Point Development Limited transferred all its physical property to the Province and ceased all land development activities. In August 2002, as part of the restructuring of the Corporation, the Province, as shareholder, authorized the elimination of the accumulated deficit of Duke Point Development Limited, in the amount of $29,786,662, by reducing the shareholder's contributed surplus of $34,371,288 by a corresponding amount. The remaining balance of $4,584,626 remains in contributed surplus of Partnerships British Columbia.

In fiscal 2004-05, the Fraser Health Authority transferred a piece of land with a net book value of $2,568,100 to the Company for nil consideration. The corresponding credit was made to contributed surplus.

### 11. PROJECT EXPENSES

Project expenses represent costs, such as legal and consulting fees, incurred by Partnerships British Columbia in connection with projects. The Company normally recovers these costs from its clients. Indirect and specific project costs ineligible for reimbursement are covered by provincial government revenue under the Public Private Partnerships Agreement (also known as the Government Services Contract) between the Province and Partnerships British Columbia, dated April 1, 2002.

Project expenses incurred during the year are as follows:

| Project | 2006 | 2005 |
|---|---|---|
| Britannia Mine Water Treatment Plant | $ 140,624 | $ 350,278 |
| Gateway | 789,863 | 828,485 |
| Kicking Horse Canyon | 212,700 | 569,528 |
| Northern Sports Centre | 152,500 | 14,917 |
| The William R. Bennett Bridge | 138,673 | 722,614 |
| Primary Care Access Centres | 163,848 | - |
| Royal Roads University | 149,565 | 152,334 |
| Sea-to-Sky Highway Improvement Project | 644,889 | 6,838,994 |
| Sierra Yoyo Desan Road | - | 153,101 |
| Vancouver Coastal Health Authority | 531,834 | 384,967 |
| Others | 469,111 | 166,387 |
| | $ 3,393,607 | $ 10,181,605 |

### 12. COMMITMENTS

Partnerships British Columbia is committed to payments under operating leases for premises through fiscal 2010.

The estimated payments are as follows:

| Year | Amount |
|---|---|
| 2007 | $ 529,334 |
| 2008 | 416,826 |
| 2009 | 317,561 |
| 2010 | 185,244 |
| | $ 1,448,965 |

### 13. CONTRACTUAL OBLIGATIONS

Under the public private partnership agreement referred to in Note 3, ARHCC has contracted with the private sector partner to build a hospital and cancer centre, including equipment, at a capital cost of $355 million. The Fraser Valley Regional Hospital District is contributing a total of $71 million to the total cost. The remainder of the cost will be advanced by the private sector partner, which will be repaid over the term of the agreement.

The agreement also provides for the private sector partner to operate and maintain the hospital and cancer centre from the time it opens, expected to be from May 2008 until April 2038.

ARHCC will start making payments once the hospital and cancer centre is commissioned, which is expected to be May 2008. The first year's payment will be $40.8 million, excluding any bonuses or penalties and future payments will be adjusted for inflation.

### 14. EMPLOYEE BENEFIT PLAN

The employees and employers of the public service contribute to the Public Sector Pension Plan (the Plan), a jointly trusted pension plan. The Public Service Pension Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a multi-employer contributory pension plan. Basic pension benefits are defined. The Plan has about 51,000 active plan members and approximately 30,000 retired plan members.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of plan funding. The latest valuation as at March 31, 2005 indicated an unfunded liability of $767 million for basic pension benefits. The next valuation will be as at March 31, 2008, with results available in early 2009. The actuary does not attribute portions of the unfunded liability to individual employers. Partnerships British Columbia paid $248,092 (2005 - $197,346) for employer contributions to the Plan in fiscal 2005-06.

### 15. RELATED PARTIES

Partnerships British Columbia is related through common ownership to all provincial government ministries, agencies and Crown corporations. The majority of the Company's clients are also provincial government ministries, agencies and Crown corporations.

Transactions with these entities, considered to be in the normal course of operations, are recorded at the exchange amounts. Transfers of assets are recorded at net book value.

In the normal course of operations, Partnerships British Columbia entered into transactions with the province and certain Crown corporations, at prevailing market prices and credit terms.

The consolidated statements of income include the following transactions with related parties:

| | 2006 | 2005 |
|---|---|---|
| Fees for services | $ 6,010,748 | $ 4,449,301 |
| Provincial government revenue | 1,800,000 | 1,800,000 |
| Other revenue | 125,400 | |
| | $ 7,936,148 | $ 6,249,301 |
| Operating expenses: | | |
| Information systems | $ 134,380 | $ 98,860 |
| Professional services | 33,229 | 42,374 |
| | $ 167,609 | $ 141,234 |

Assets and liabilities with related parties as at March 31, 2006 were:

| | | |
|---|---|---|
| Accounts receivable | $ 2,779,000 | $ 4,365,000 |
| Accounts payable and accrued liabilities | $ 645,000 | $ 320,000 |

### 16. FINANCIAL INSTRUMENTS

**a. Fair Value**

As at March 31, 2006, the carrying values of financial instruments, including accounts receivable, other current assets, accounts payable and accrued liabilities, and deferred revenue, approximates their fair values because of the short-term nature of these instruments.

**b. Interest Rate Risk**

Interest rate risk is limited due to the short-term nature of the investments held.

**c. Credit Risk**

Partnerships British Columbia grants credit to its clients, the majority of whom are provincial government ministries, agencies and Crown corporations. Credit risk is limited due to the financial stability of these organizations.

### 17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the 2006 presentation.

# Corporate Governance

Partnerships British Columbia reports through its Board of Directors to the Provincial Government, represented by the Minister of Finance. The Board of Directors was appointed July 15, 2003, with Directors drawn from the public and private sectors. The Board has two key functions: to provide governance and oversight for the Company and to review and approve potential partnership opportunities. The Board follows governance principles as set out in the *Best Practices Guidelines* published by the Board Resourcing and Development Office of the Office of the Premier.

The activities of the Board are governed by disclosure guidlines set by the Province. Details on Partnerships British Columbia's governance practices can be found on the Company's website (www.partnershipsbc.ca)

### Board of Directors

Rick Mahler, Chair

Dan Doyle

Harold Calla

Celia Courchene

Jim Dinning

Charles Jago

Ellen Morfitt

Barry Lapointe

Carol Stephenson

### Board Committees

***The Board is supported by two subcommittees:***

The Audit and Risk Management Committee reviews and recommends all financial statements and other financial information. This includes audited financial statements, quarterly financial statements, the annual report and any quarterly reports, the annual service plan, annual business plan and operating and capital budgets and any budget presentations to government. The Committee also reviews the Company's risk management, internal controls and information systems. The Committee includes Ellen Morfitt (Chair), Dan Doyle, Barry Lapointe and Harold Calla.

The Human Resources and Governance Committee assists the Board with human resource and government issues, compensation matters and the establishment of a plan of continuity and development of senior management. The Committee also provides a focus on corporate governance to enhance the performance of the Company. The committee includes Charles Jago (Chair), Carol Stephenson, Celia Courchene, and Jim Dinning.

***Senior Management***

- Larry Blain, *President and CEO*
- Mike Marasco, *Vice President, Partnerships Development*
- Grant Main, *Vice President, Policy and Practices*
- Suromitra Sanatani, *Vice President, Corporate and Government Relations*

# Information on Subsidiaries

## Abbotsford Regional Hospital and Cancer Centre Inc.

***Project description and vision***

The Abbotsford Regional Hospital and Cancer Centre project is a Greenfield 300-bed integrated referral hospital and cancer centre. It replaces an aging and functionally obsolete community hospital, and is designed to provide a wider range of services and meet the increasing health care needs of one of the fastest growing regions in B.C.

The project involves a long term agreement between the public and private sector wherein the public sector (the Fraser Health Authority and the Provincial Health Services Authority) provides clinical services and the private partner finances, designs, builds and maintains a high quality hospital and cancer centre and provides facility management services such as housekeeping, food, laundry and linen services over a 30 year period.

The project vision is:

*"Together we will create an innovative environment that inspires caring and the pursuit of knowledge and excellence".*

***Mission***

Abbotsford Regional Hospital and Cancer Centre Inc. is responsible for the procurement of the Abbotsford Regional Hospital and Cancer Centre from the competitive process through to the commissioning of the facility, at which point it will be transferred to the Fraser Health Authority and Provincial Health Services Authority for the 30 years operations phase of the project.

***Location of operations***

Abbotsford, British Columbia

***Governance structure***

Abbotsford Regional Hospital and Cancer Centre Inc. was established under the Business Corporations Act as the public sector decision making and contractual vehicle for the purposes of the public private partnership.

The Company has a five member Board of Directors, including representatives from Partnerships British Columbia, the Ministry of Health Services, the Fraser Health Authority and the Provincial Health Services Authority. In addition, the Fraser Valley Regional Hospital District, which is making a significant capital contribution to the project, is represented at the Board in an observer capacity.

Following substantial completion of the project, the shares of the Company will be transferred from Partnerships British Columbia to the Fraser Health Authority and Provincial Health Services Authority.

***Operations and results***

The past year has been successful for Abbotsford Regional Hospital and Cancer Centre Inc.

Following execution of the Project Agreement on December 7, 2004, intensive Schematic Design and Design Development work commenced in a highly consultative fashion. The partnership between the parties has seen this complex project stay on budget, on time and within the agreed to scope.

The new facility will provide:

- State-of-the-art diagnostic equipment and treatment;
- New and enhanced health programs and services;
- A healthy, efficient and inviting environment for patients, staff and visitors.

Patient care delivery at the new site is scheduled to commence in Summer 2008.

## ABBOTSFORD REGIONAL HOSPITAL AND CANCER CENTRE
**Balance Sheet as at March 31**

| *(in thousands)* | 2006 | 2005 | Change |
|---|---|---|---|
| **ASSETS** | | | |
| **Assets** | | | |
| Cash and Cash Equivalent | $ 23,101 | $ 8,876 | $ 14,225 |
| Accounts Receivable | 1,028 | 17 | 1,011 |
| Long-Term Investments | 709 | 587 | 122 |
| Land | 4,612 | 4,612 | - |
| Construction in Progress | 120,687 | 32,741 | 87,946 |
| Deferred Development Costs | 12,315 | 10,580 | 1,735 |
| **Total Assets** | $ 162,452 | $ 57,413 | $ 105,039 |
| **LIABILITIES AND NET ASSETS** | | | |
| **Liabilities** | | | |
| Accounts Payable and Accrued Liabilities | $ 14 | $ 299 | $ (285) |
| Deferred Capital Contributions | 55,502 | 20,974 | 34,528 |
| Loan Payable | 104,368 | 33,572 | 70,796 |
| Total Liabilities | 159,884 | 54,845 | 105,039 |
| **Net Assets** | | | |
| Unrestricted Net Assets | - | - | - |
| Net Assets Invested in Capital Assets | 2,568 | 2,568 | - |
| **Total Net Assets** | 2,568 | 2,568 | - |
| **Total Liabilities and Net Assets** | $ 162,452 | $ 57,413 | $ 105,039 |

## Assets

Cash and cash equivalents (including long-term investment), increased by $14,347,571 from $9,463,081 to $23,810,652. The breakdown of cash and cash equivalents for 2006 was as follows: $21,217,952 in restricted cash and $1,883,350 in short term investments. In comparison, the breakdown for 2005 was as follows: $7,701,920 in restricted cash and $1,174,000 in short term investments. The increase in restricted cash was due to funds received from Access Health Abbotsford ("AHA"), the private sector partner on the ARHCC project, and contributions from the Fraser Valley Regional Health District ("RHD") for ARHCC's procurement and constructions costs.

Accounts receivable relates to a GST receivable and accrued interest receivable.

Construction in progress represents the total construction costs approved for payment by AHA to the contractor by ARHCC's independent certifier. For the year ending March 31, 2006, the independent certifier has approved claims totalling $85,749,479. The balance consists of project building permit fees and civil works. The construction in progress as at March 31, 2006 was $120,686,777.

Deferred development costs related to ARHCC's project expenses increased by $1,735,161 from $10,579,665 to $12,314,826. These costs represent the direct development and overhead costs attributable to the project.

## Liabilities and Net Assets

Loans payable increased by $70,795,234 due to funding received from AHA for the acquisition of land and construction costs for ARHCC less RHD funding flows.

Deferred capital contribution represents contributions received from RHD and reimbursements from the Ministry of Health Services for monthly operating costs. During the period, RHD contributed $32,300,000 and $1,692,910 was received from the Ministry of Health Services and $534,871 in interest, resulting in a balance of $55,501,813 at year-end.

## FTE Count

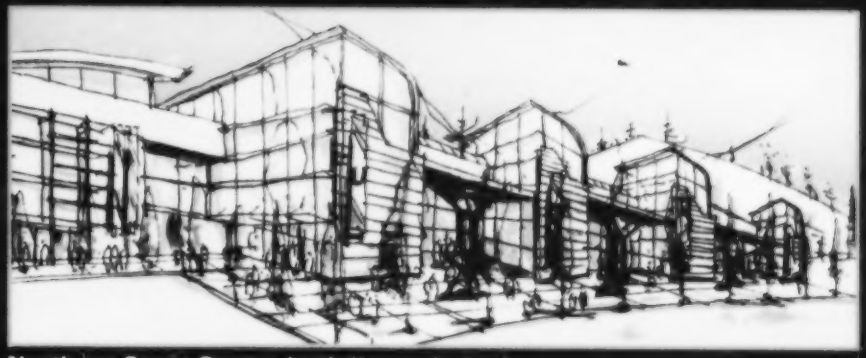
ARHCC Inc has no FTE's.

**The Vancouver Sun,** *December 1, 2005*

## Appendix 1: Changes to Goals and Measures

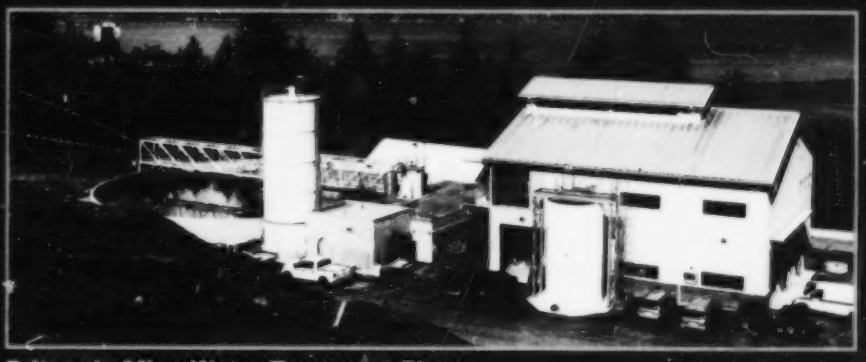
| 2005-06 SERVICE PLAN (UPDATE) | 2006-07 SERVICE PLAN | COMMENTS |
|---|---|---|
| Goal 1: To pursue, structure and implement public private partnerships<br><br>Measures:<br>• Public private partnership development agreement engagements with Province and/or agencies<br>• Positive assessment by Board of Directors<br>• Pilot Engagements in key sectors | Goal 1 : Structure and Implement Public-Private Partnership Solutions which serve the public interest<br><br>Measures:<br>• Public private partnership development agreement engagements with Province and/or agencies<br>• Revenue Growth<br>• Positive assessment by Board of Directors (on project milestones achieved)<br>• Client Survey results indicate Partnerships British Columbia performance meets or exceeds targets<br>• Publish Value for Money Disclosure Report on all projects after financial close has been reached<br>• Publish fairness and probity opinions on projects where size and scope warrants review. | Consolidation of previous goals incorporates "pursuit", "client satisfaction" and "public interest" measures<br><br>Measures drawn from previous corporate goals subsumed by this goal<br><br>Revenue growth measure intended to provide quantitative assessment of partnerships development |
| Goal 2: Satisfy clients<br><br>Measure:<br>• Client Survey results indicate Partnerships British Columbia performance meets or exceeds client expectations<br><br>Goal 4: Preserve the public interest and ensure competitive, fair and transparent processes<br><br>Measure:<br>• Publish Value for Money Reports for Money Disclosure Report on all projects after financial close has been reached<br>• Publish fairness and probity reports on project where size and scope warrants fairness review | | |
| Goal 5: Be widely recognized as a centre of excellence for innovation, leadership and expertise in public private partnerships<br><br>Measures:<br>• New market participants in B.C.<br>• Annual examples of best practices established, acknowledged and adopted within the Provincial government and by other governments<br>• Revenue generation from clients outside of the provincial government | Goal 2: Encourage development of the partnerships market in British Columbia<br><br>Measures:<br>• New market participants in British Columbia<br>• Annual examples of best practices established, acknowledged and adopted within the Provincial government and by other governments<br>• Annual examples of synergies and process cost reductions<br>• External validation, e.g. awards, informed media coverage | Goal renamed for 2006-07 – serves long-term public interest by creating a more competitive environment for public private partnership solutions.<br><br>Extra-provincial revenue measure removed as it doesn't directly reflect market growth in British Columbia.<br><br>Baseline to be established<br><br>Indicator of market development in British Columbia. |
| Goal 3: Become commercially viable<br><br>Measures:<br>• Meet financial plan targets in 2005/06<br>• Equity exceeds six months operating expenses<br><br>Goal 6: Build and retain the Partnerships British Columbia team<br><br>Measures:<br>• Investment in employee training and improvement – set benchmark<br>• Employee satisfaction – set benchmark | Goal 3: Remain Commercially Viable and increase productivity<br><br>• Meet financial plan targets in 2006-07 (minimum 15% net income margin pre-variable compensation, net income margin)<br>• Positive employee satisfaction survey results (85%)<br>• Targeted and relevant training programs developed – 5% of compensation costs | Partnerships BC has become commercially viable<br>Net income target set to reflect shareholder need to balance commercial viability with need to manage project costs<br><br>Equity target removed as it was considered not to be a meaningful measure in the context of Partnerships British Columbia's revenue context<br><br>Quantification of human resources measures is intended to reflect the "increase productivity" aspect of this goal |

"British Columbia's P3 market continues to make impressive strides..."

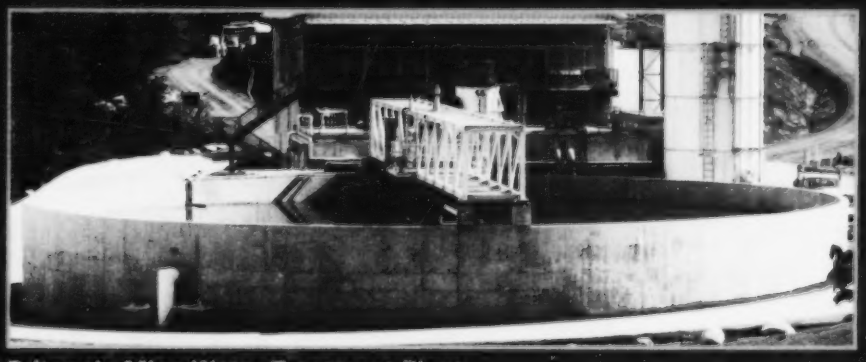


Northern Sport Centre (artist's rendering)

Academic Ambulatory Care Centre (artist's rendering)



Britannia Mine Water Treatment Plant



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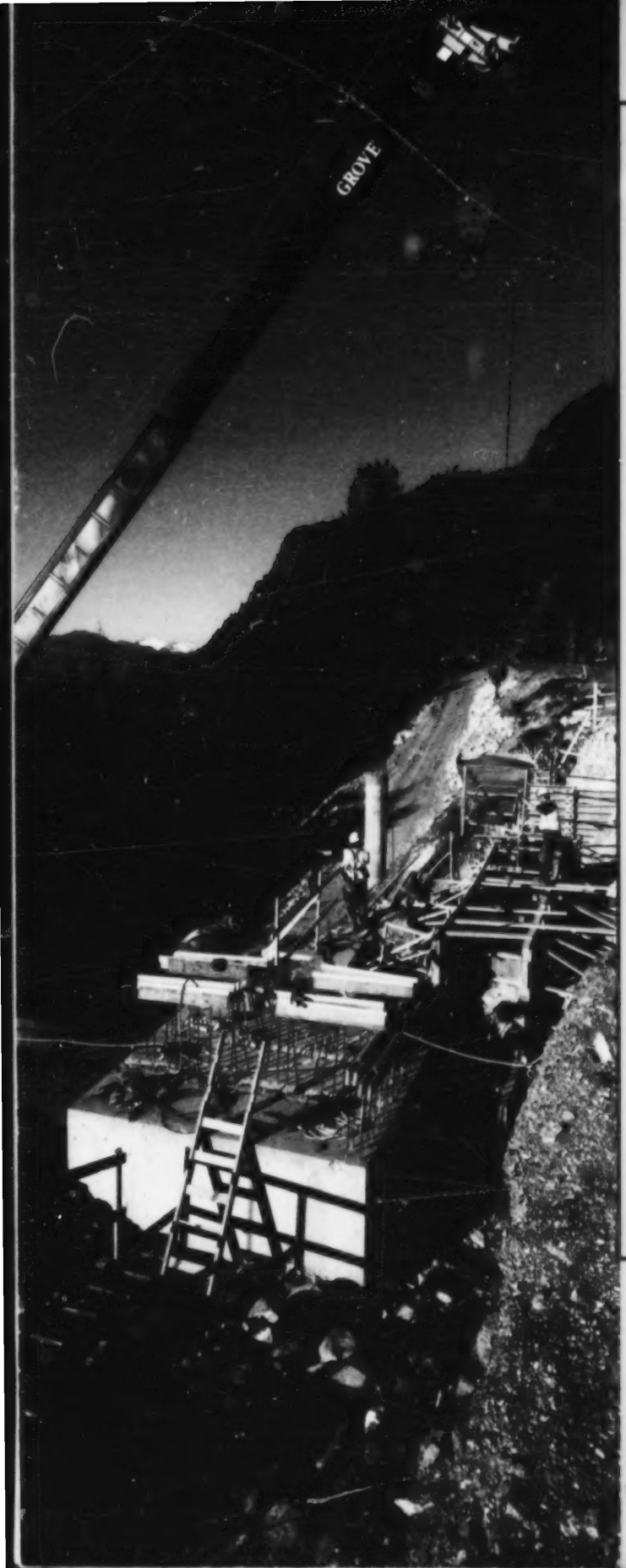


partnerships
British Columbia

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